

HITACHI

# Hitachi Capital Corporation

Annual Report 2003 *Year ended 31st March, 2003*

Innovation in Business Structure and Management

Quality First



 Hitachi Capital Corp.

HITACHI CAPITAL CORPORATION  
ANNUAL REPORT 2003

## Profile

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Hitachi Capital Corporation is committed to providing financial services that deliver greater satisfaction to an expanding range of corporate clients and individuals. This commitment is underscored by three core competencies—product development skills, which enable the company to develop products and services that satisfy customers; financial strength, which is based on sound risk management; and the marketing skills of employees who think and act from the customer’s perspective.

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### **Forward-Looking Statements**

This annual report contains forward-looking statements about the future plans, strategies, beliefs and performance of Hitachi Capital and subsidiaries. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to the company and are subject to a number of risks, uncertainties and assumptions, which, without limitation, include economic trends, competition in markets where the Company is active, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from those projected.

# Financial Highlights

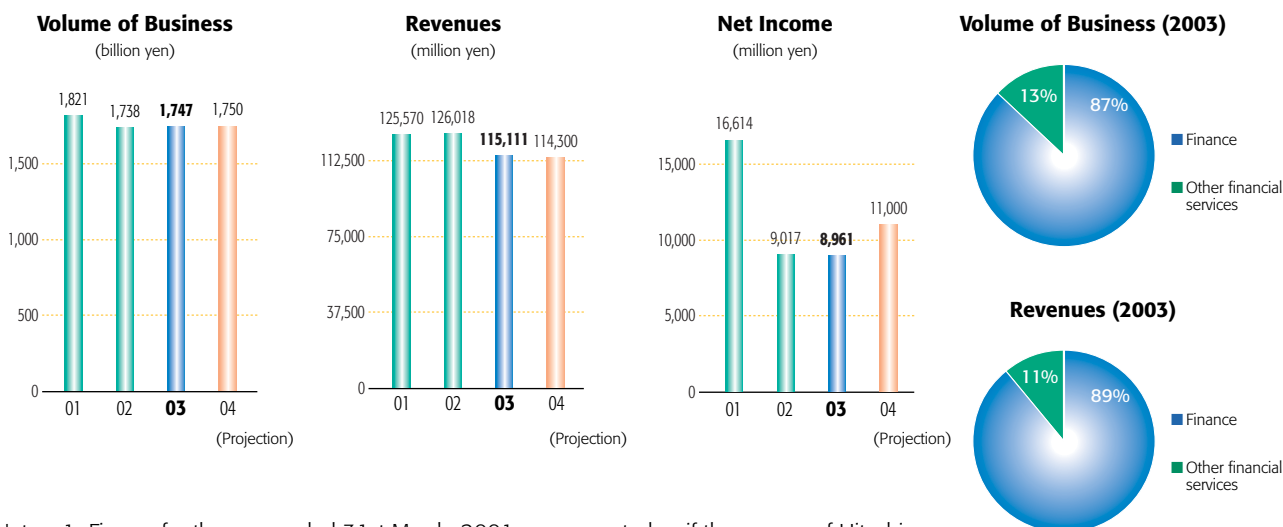
Hitachi Capital Corporation and Subsidiaries  
Years ended 31st March, 2003, 2002 and 2001

	Japanese yen (millions)			U.S. dollars (thousands)
	2003	2002	2001	2003
Volume of business .....	<b>¥1,746,946</b>	¥1,738,105	¥1,595,151	<b>\$14,557,883</b>
Revenues .....	<b>115,111</b>	126,018	109,794	<b>959,258</b>
Expenses .....	<b>97,303</b>	108,222	83,778	<b>810,858</b>
Net income .....	<b>8,961</b>	9,017	14,728	<b>74,675</b>
Total assets .....	<b>2,014,590</b>	2,078,630	2,045,438	<b>16,788,250</b>
Stockholders' equity .....	<b>222,789</b>	227,759	223,140	<b>1,856,575</b>
Cash dividends paid .....	<b>4,541</b>	4,563	3,603	<b>37,842</b>
Per share (in yen and U.S. dollars):				
Net income .....	<b>¥ 66.3</b>	¥ 67.2	¥116.6	<b>\$ 0.55</b>
Cash dividends paid and declared for the year .....	<b>32.0</b>	34.0	33.0	<b>0.27</b>
Stockholders' equity .....	<b>1,730</b>	1,697	1,663	<b>14.42</b>

Notes: 1. U.S. dollar amounts in this report represent translations of yen, solely for the convenience of the reader, at the rate of ¥120=US\$1, the approximate exchange rate at 31st March, 2003.

2. Stockholders' equity per share is based on the weighted average number of shares of common stock outstanding during the respective years (see Note 3 (I) for net income and dividends).

3. Figures for the second half of the year ended 31st March, 2001 are for Hitachi Capital Corporation.



Notes: 1. Figures for the year ended 31st March, 2001 are computed as if the merger of Hitachi Credit and Hitachi Leasing had taken place at the beginning of this fiscal year.  
2. The volume of business figures in fiscal years prior to the year ended 31st March, 2002 have been revised to reflect the adoption of a new securitization scheme that is not included in the volume of business.

## Message From the President

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The Hitachi Capital Group's goal is to pursue the "creation and retention of customers," by proving ourselves worthy of the trust of customers and society and ensuring that our development is based on sound business practices. "Quality First" is the polestar for our actions. While promptly responding to change, we will draw on our collective strengths and those of the Hitachi Group, to achieve higher standards in customer satisfaction.

In line with this fundamental philosophy, the Hitachi Capital Group has formulated a medium-term management plan that lays down medium- and long-term strategies. We are working to achieve the goals of this plan. The plan aims to make Hitachi Capital worthy of the trust of customers and society by concentrating on enhancing risk management and advancing three business strategies: strengthen core businesses that support earnings; develop expanding businesses that stimulate new sources of demand; and participate in growing businesses that target markets with growth potential. These three strategies will establish Hitachi Capital as the nucleus of financial service operations for the Hitachi Group.

Members of the Hitachi Capital Group are working in close cooperation with one another to enhance their service lineups by leveraging core competencies. The group will adapt to structural economic change, revisions to financial systems, and amendments to laws and regulations, while rapidly launching businesses that cater to needs spawned by those changes. Through this process, the Hitachi Capital Group aims to become a "powerful finance company" with an expansive customer base.



During the past fiscal year, economic conditions in Japan still remained extremely difficult. In this climate, the Hitachi Capital Group reorganized its five business sectors into two business sectors in accordance with the nature of its operations and strategic factors. The first business sector is the finance business, which unites the converging leasing and retail businesses. These businesses constitute the group's core businesses. The other business sector is the other financial services business, which includes the card business, securitization business and the outsourcing business. These are still relatively small businesses. The Hitachi Capital Group continued to conduct customer-centric activities leveraging specialist skills in these two business sectors. We also devoted our efforts to expanding volumes in the five expanding businesses pursuant to our medium-term management plan, taking actions enter new markets and develop new customers, as well as launch new products and services.

Also during the year, we reduced interest-bearing debt to strengthen our financial position. The group also placed priority on risk management, further refining its expertise in credit investigations and the management of receivables.

In the finance business, volume remained unchanged at ¥1,528,477 million (US\$12,737 million), while revenues declined 10percent to ¥107,544 million (US\$896 million). Weak consumer spending in Japan dampened demand for loans for automobiles and home appliances. Leasing volume also suffered as companies limited their capital expenditures.

However, the other financial services business saw volume increase 6percent to ¥226,682 million (US\$1,889 million) and revenues increased 18percent to ¥12,796 million (US\$107 million). This reflected efforts by the card services business to expand multi-functional IC cards, and growth in securitization and outsourcing services due to an increase in business with Hitachi Capital Group members.

Due to the above factors, the consolidated volume of business rose 0.5percent to ¥1,746,946 million (US\$14,558 million). Revenues declined 8.7percent to ¥115,111 million (US\$959 million). Net income declined 0.6percent to ¥8,961 million (US\$75 million).

For the current fiscal year, Hitachi Capital forecasts consolidated revenues of ¥114,300 million (US\$953 million) and operating income of ¥21,000 million (US\$175 million). Net income is expected to increase 23percent to ¥11,000 million (US\$92 million). This forecast is based on an uncertain outlook for the Japanese economy. Internal and external demand remained soft due to protracted deflation and there is still no end in sight for the country's structural problems. Fears of a continued slowdown in the U.S. are exacerbating concerns over the economic outlook.

We will deepen our customer-driven activities, while working to build a stronger organization and refine our credit management skills. Simultaneously, we will work with other members of the Hitachi Capital Group to deliver enhanced operating results.

We ask for your continued support and understanding.

June 2003

Kaichi Murata  
President



# A Discussion With the President

## Q1: What are the goals of your new medium-term management plan?

Our new medium-term management plan was first announced at our interim earnings presentation last year. As I explained on that occasion, the goal is to create and retain new customers, and thereby become a “powerful finance company” with an extensive customer base. In this way, we hope to prove ourselves worthy of the trust of customers and the public.

To reach this goal, the new plan lays down strategies for three business categories: core businesses, expanding businesses and growing businesses. Each member of the Hitachi Capital Group will be improving service lineups by leveraging its core competencies. The group will also adapt to structural changes in economies and financial systems, as well as to new laws and regulations. Finally, the group must rapidly launch businesses that cater to needs arising from these events. These actions will position us as the Hitachi Group’s core financial services provider.

## Q2: Please explain how Hitachi Capital will advance each of its three business strategies.

### <Core Businesses>

In core businesses, which are the largest component of our earnings, there are two main themes—creating value-added services and strengthening our ability to generate earnings.

In the leasing of computers and other IT equipment, we are developing financial products that draw on the advantages

of our affiliation with a prominent manufacturer. This is leading to a higher standard of customer satisfaction. In office equipment leasing, operating efficiency increased due to the success of a program using female sales personnel and the use of e-commerce. Industrial equipment leasing is focusing on operating leases, which offer low rates by taking advantage of the residual value of leased assets. In automobile leasing, we are forming alliances with dealers to extend loans to their customers. Our network of alliances is also being extended to automobile service promotion associations, consumer cooperatives and other organizations to increase marketing channels. In the automobile customer-agent business, we are looking to stimulate new demand by developing a new type of automotive service. The other financial services business includes card, securitization and outsourcing. In this field, we will enhance financial services and expertise to provide useful financial products for individuals and companies.

In this manner, we will strengthen our ability to generate earnings in core businesses and launch value-added products that meet the distinctive needs of each market sector.



## <Expanding Businesses>

Hitachi Capital is advancing a project called “Five Businesses Plus One” to cultivate expanding businesses aimed at stimulating new demand.

We cannot count on existing business models to sustain the high growth of past years, especially given Japan’s maturing markets and the economic downturn. The way forward lies in creating new sources of demand. New financial services and products that leverage our strengths in product development and our nationwide sales network will be key.

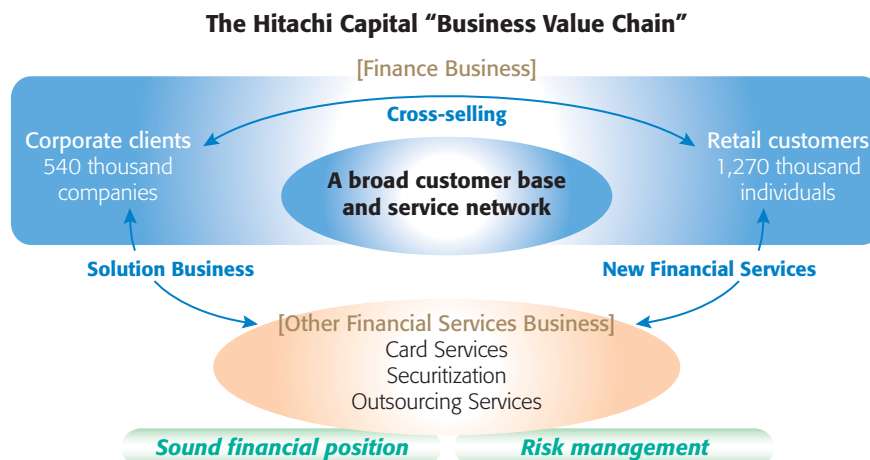
Our first targeted business is automobile leasing, where we are developing a new auto leasing service that will alter the way individuals obtain new cars. Customers will benefit from a convenient and affordably priced service that places all of our expertise in automobile financing at their disposal, from leasing to auto insurance and structuring the best payment schedules.

The second targeted business is home appliances and home refurbishment loans. The home appliances field will see us work even more closely with Hitachi Home and Life

Solutions, Inc. to increase sales of Hitachi products. The home refurbishment loan business will be expanded through alliances with home-refurbishment companies, both independent firms and those affiliated with homebuilders. Other arrangements that make home refurbishment more appealing to customers will be offered to uncover latent demand.

The third targeted business is home loans. Our competitors are set to put up a tough fight as demand increases sharply in the near term. The key to success will be to enlarge our customer base by adding value to mortgage products in a way that sets us apart from competitors. Our actions will also focus on preserving our profitability. This thinking lies behind the launch of a new lineup of mortgages with additional benefits that reassure homeowners.

On 14th May, 2003, Hitachi Capital and two homebuilders formed a joint venture called The Mortgage Corporation of Japan, Ltd. This venture will provide a steady flow of mortgage financing by taking advantage of plans by The Government Housing Loan Corporation to introduce a system that will facilitate the securitization and sale of its loans.





The fourth targeted business is the financing for medical devices field. Our goal remains to sharply expand our position in the medical equipment business, which is expected to steadily grow for years to come. While forming more alliances with manufacturers and distributors with nationwide networks, we will offer a new lineup of commercial loans mainly targeting physicians just beginning a private practice. Other priorities are to create new customers and sustain our volume of business.

The fifth targeted business is agricultural financing. Hitachi Capital will support the growing adoption of modern business management techniques by farmers with a diverse lineup of financial services. We will also develop various forms of income guarantees for farming households.

The sixth targeted area is a set of infrastructure enhancements called "Plus One" that are geared to creating new customers. Our three priorities are to expand our NOVA Square network, open Repeat Customer Centers and improve our lineup of financial products. Nova Squares will be the public face of our company, where we can provide one-stop

financial services to customers in the workplace. Repeat Customer Centers will encourage our regular customers to sign up for more of our financial services. Product lineup enhancements are aimed at increasing our volume of business sold to customers at their place of work and to regular customers. Our first step in this direction was to develop new financial products for individuals. We will first offer these products to Hitachi Group employees and to employees of companies with which we have close ties. At the same time, we will broadly apply the expertise we have gained in low-risk financing to win new customers.

#### **<Growing Businesses>**

Our strategy for growing businesses, which target high-potential markets, is to secure competitive advantages through start-up investments. This will ultimately lead to higher business volumes and stronger earnings. We will move aggressively to multiply the growth of these businesses through alliances, mergers and acquisitions, while breaking into attractive new fields and capturing a high market share. In energy and the environment, we will stake out a position in the promising growth fields of environmental and energy-related equipment. Hitachi Capital will make a difference in many more fields with strong growth prospects. We will strengthen our hand in private finance initiative (PFI) schemes, which are set to revolutionize the efficiency of public services. We will build a solid presence in the senior citizens market, which is strategically significant due to the aging of Japan's population. We will enter the insurance business by refining the insurance and guarantee services developed through our automobile, business equipment and home financing businesses. We will replicate our

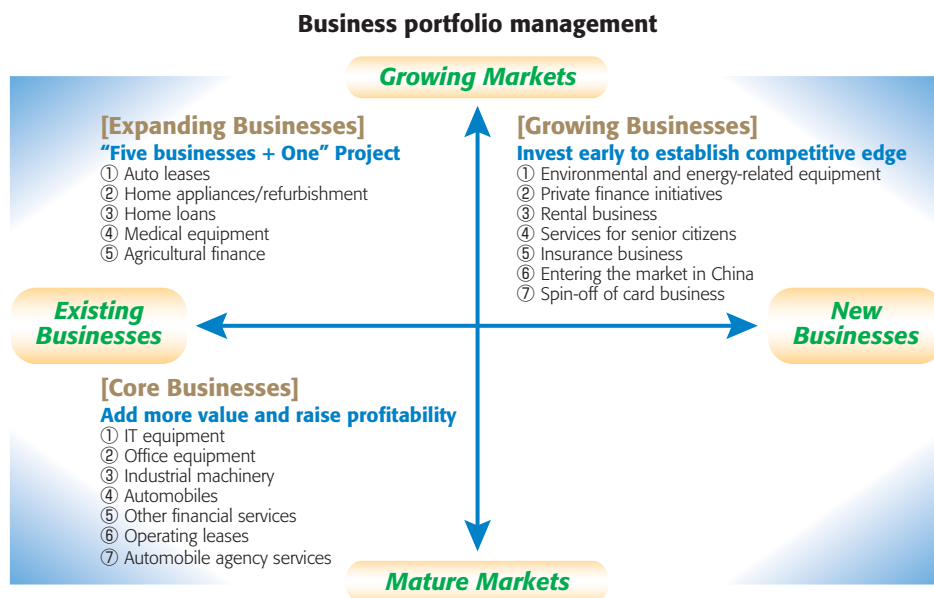
successful forays into overseas markets by growing in China, a market with vast potential. In March 2003, Hitachi Capital obtained approval to establish a representative office in Beijing. Plans call for establishing a new company and starting operations in China within 2003. Moreover, our card services business has been reorganized as a separate company and subsidiaries will be integrated to speed decision making and operational execution. I believe that these steps will make our organization still more competitive.

### Q3: How do you view Hitachi Capital's role within the Hitachi Group?

I see our role as being the nucleus of financial service operations for the Hitachi Group.

Ever since its establishment, Hitachi Capital has adapted to changes in its markets and diversifying customer needs. Our business portfolio today is the result of an evolutionary process that began with the extension of credit to consumers for the purchase of Hitachi home appliances. That process saw us diversify our lineup of products and services, and how we structure and sell our services. As Hitachi Capital developed, we deepened our ties with Hitachi and its group companies. At the same time, we made a concerted effort to expand our business with customers outside of the Hitachi Group. Supporting this drive was our growing collection of skills in financial technology and the marketing of financial services.

Our mission to serve as the nucleus of the Hitachi Group's financial services business will continue to shape



our development. We aim to deepen our relationships with customers both inside and outside the Hitachi Group to become their primary financial services provider. At the same time, we will work to consistently improve our operating results by looking to a broader range of markets for future growth. Ultimately, I believe this strategy will enable Hitachi Capital to best contribute to the consolidated performance of the Hitachi Group.

#### **Q4: Will Hitachi Capital ultimately shoulder cash management services for the Hitachi Group?**

No. But this will in no way restrict our ability to function as the nucleus of the financial service operations of the Hitachi Group. Hitachi Capital hopes to be a readily accessible source of financial services for the Hitachi Group's employees. That said, we don't intend to go as far as process transactions. Let me provide an example. We recently developed "alto e 200," our first multipurpose consumer loan. This loan mainly targets employees of the Hitachi Group, a large but limited customer segment. This is a marketing technique we have pursued for many years. The low risk profile of these employees allows us to set interest rates between 7.8% and 9.6%. Our entry into consumer loans is not driven solely by our desire to increase earnings. I see it as part of our responsibility for maintaining the standard of living of Hitachi Group employees, the single greatest asset of the group.

These and future initiatives underscore our commitment to being a readily accessible source of financial services for the Hitachi Group and its employees.

#### **Q5: What is your strategy for Hitachi Capital businesses that have been converted into subsidiaries?**

The adoption of a consolidated taxation system in Japan, whereby a group of companies report and pay taxes as a single entity, will gradually relax regulatory supervision of intra-group transactions. The reason is that the new taxation system recognizes the same amount of taxable group earnings, regardless of whether earnings at wholly owned subsidiaries are transferred to the parent companies or reported by those subsidiaries. These developments are mirrored in changing corporate management styles. In fact, many Japanese companies moved to establish new ways of managing their subsidiaries before the tax code reforms became effective.

The consolidated taxation system is blurring legal distinctions that separated parent companies and their subsidiaries. However, I believe that tax code reforms have no bearing on how companies are managed. What is at stake is fostering a management team with the will to succeed. When establishing a subsidiary responsible for its own earnings, a new management team must be put in place. That team must seriously consider how to run their organization effectively. Only through this process can we foster individuals who can analyze operations from a comprehensive perspective that includes profitability, productivity, and efficiency.

Corporations that aim to speed management practices by encouraging faster decision making must overcome the inertia of their large internal organizations, which slow down the decision-making process. I believe we can overcome this challenge. The key is to vest greater authority in management teams that are held accountable for the performance of subsidiaries created from Hitachi Capital businesses.



### **Q6: Why did Hitachi Capital adopt a committee system?**

The Hitachi Group's switch to a committee system is primarily aimed at ensuring transparent management and faster business execution. I am confident that this will lead to increased shareholder value.

Japanese corporate management has traditionally been mired in a culture of compromises. It is widely understood in Japan that corporations must be run in the interests of shareholders, in principle, but a succession of consensus-driven compromises have finally led Japanese companies to an impasse. An uncompromising management stance is essential to upholding shareholder interests.

In Japan, some thirty companies have thus far announced their intention to adopt the committee system. The main challenge will be shunning compromises in favor of decisions that are true to shareholder interests.

### **Q7: What actions will Hitachi Capital take to meet the goals of its 50th Anniversary?**

My aspirations for Hitachi Capital's 50th anniversary are ambitious. This reflects my personal belief that management must aspire to lofty goals that preserve a healthy spirit of taking on challenges throughout the organization. My goals emphasize the numeral 5, since this is our 50th anniversary. We aim first to increase our workforce from 3,500 to around 5,000 employees by our anniversary. If 5,000 employees can each generate ¥10 million in earnings, ordinary income will climb to ¥50,000 million. At this level, Hitachi Capital's market capitalization would probably increase to ¥500,000 million by our 50th anniversary. Numerous strategies and actions are being considered to reach these goals.

Our first priority is to redefine the mindset of senior management and second-tier managers. One key measure was the establishment of the Finance Committee on 1st March, 2003 to serve as an advisory board to the Executive Committee and president. This committee will revolve around up to 8 highly regarded department-level general managers who represent the next generation of leadership at Hitachi Capital. I have invited an individual from outside Hitachi Capital to chair this committee, because I believe that this position requires someone from outside of our corporate culture. The Finance Committee's mission is nothing less than to transform Hitachi Capital. I have very high hopes for this new organization.

# At a Glance

## Overview

*The Hitachi Capital Group is working to reach its goal of “creating and retaining customers” by advancing three business strategies—strengthen core businesses, nurture expanding businesses, and enter growing businesses. Over the years, the Hitachi Capital Group has built up an extensive base of customers, business partners and service locations; acquired extensive expertise in financial products and financial engineering; and gained the ability to readily procure funds directly from capital markets. The group is drawing on these strengths as it seeks to sustain steady growth.*

### Leasing Business

This business includes finance leases, operating leases, rental services and private finance initiatives. It also develops new financial products that meet emerging customer needs in line with changing operating environments, and provides quality services tailored to each customer.

*Products: Leasing of computers and IT equipment, industrial equipment, environmental and healthcare equipment, construction machinery, semiconductor facilities, medical devices and other products*

### Automobile Business

This business is developing an entirely new comprehensive auto leasing service that will cover auto loans, auto leasing, and the appraisal and trade-in of passenger cars. This service will cover both passenger cars and commercial vehicles.

*Products: Automobile leasing services (passenger, commercial cars and special-purpose vehicles) and other products*

### Business Equipment Business

Leasing of telecommunications and other business equipment, and provision of services for the agricultural sector are the main activities of this business. The goal of the business is to help customers make qualitative improvements to their management techniques and provide new services that offer higher customer satisfaction.

*Products: Leasing of business equipment, medical devices, and financial services for the agricultural and fishery sectors and other products*

### **Housing Business**

This business is focused on providing new types of financial services that help client homeowners maintain quality living standards. Targeted fields include home loans, home appliances and home refurbishment. An extensive lineup of services is also offered to employees of the company's business partners.

*Products: Leasing of home appliances (including digital home appliances), financial services for home loans and refurbishment and other products*

### **Card Services**

Through the issue of multi-functional IC cards, this business provides debit, electronic-money, prepaid card services and other financial and payment services to satisfy the needs of corporate clients and their employees.

*Products: Employee ID cards with credit card functions, J-Debit service and other products*

### **Securitization**

The Hitachi Capital Group offers a wealth of expertise in securitization schemes, to help customers improve their financial standing by satisfying their fund-procurement requirements and providing other financial services. At the same time, the company develops and provides insurance products that deliver outstanding customer satisfaction.

*Products: Arrangement of securitization schemes and other services including insurance*

### **Outsourcing Services**

This business includes payment, bill collection and other settlement-related outsourcing services that draw on the company's outstanding administrative processing skills and specialized knowledge. It also provides a wide range of back-office services for prominent client companies and other customers through outsourcing contracts.

*Products: Payment and collection services; full outsourcing contracts for back-office operations and other products*

### **Workplace Services**

This business entails the provision of a broad-ranging lineup of financial products and services for the benefit of employees, the greatest asset of corporations. In this way, Hitachi Capital plays an important role in enhancing the quality of employees' lives.

# Directors and Officers

## Directors



**Masayoshi Hanabusa**  
Chairman of the Board



**Kaichi Murata**  
Director



**Yoshitaka Aritoshi**  
Director



**Yoshiki Yagi**  
Director



**Yuushi Samuro**  
Director



**Kunimitsu Mukunoki**  
Director

## Corporate Officers



**Kaichi Murata**  
President and Chief  
Executive Officer  
(Concurrently serves  
as director)



**Kimio Yokoyama**  
Vice President and  
Executive Officer



**Takaaki Kubota**  
Senior Corporate  
Officer



**Kazuo Takano**  
Senior Corporate  
Officer



**Yukio Ohki**  
Senior Corporate  
Officer



**Yukio Mori**  
Senior Corporate  
Officer



**Hideyuki Iikura**  
Senior Corporate  
Officer



**Masatsugu Hori**  
Senior Corporate  
Officer

## Senior Administrative Officers and Administrative Officers

**Yukio Shinya**  
Senior Administrative Officer

**Osamu Teshima**  
Senior Administrative Officer

**Sohjiro Sakaguchi**  
Senior Administrative Officer

**Seiji Nakamura**  
Senior Administrative Officer

**Toyoshige Miyase**  
Senior Administrative Officer

**Yasushi Matsushita**  
Senior Administrative Officer

**Yutaka Yokoyama**  
Administrative Officer

**Hiroshi Tobita**  
Administrative Officer

**Akio Ogura**  
Administrative Officer

**Yoshikatsu Saitoh**  
Administrative Officer

**Kouji Ueda**  
Administrative Officer

**Kyoko Ookubo**  
Administrative Officer

**Mitsugu Ikeda**  
Administrative Officer

**Keiji Miyafusa**  
Administrative Officer

**Yasuo Kitaura**  
Administrative Officer

**Nobuo Sugimoto**  
Administrative Officer

**Kazuya Miura**  
Administrative Officer

**Hiroshi Nakamura**  
Administrative Officer

**Kazumasa Igawa**  
Administrative Officer

## Top Management at Subsidiaries

**Shinichi Urata**  
Okinawa Hitachi Capital Corp.

**Hiromitsu Kanai**  
Amic Services Corp.

**Masaki Kozaki**  
Hitachi Capital Data Services Co., Ltd.

**Takashi Furukawa**  
Hitachi Capital Service Co., Ltd.

**Yoshifumi Ishida**  
Hitachi Capital Auto Lease Corp.

**Ryoji Satoh**  
Hitachi Credit Securities Co., Ltd.

**Koichi Satoh**  
Hitachi Triple Win Corp.

**Takashi Furukawa**  
Hitachi Leasing Service, Ltd.

**Mitsuhiro Okada**  
Sekisui Leasing Co., Ltd.

**Yosei Yamato**  
Hitachi Card Service Corp.

**David Anthony**  
Hitachi Credit (U.K.) PLC

**Simon Oliphant**  
Fleetlease (UK) Ltd.

**Richard Egan**  
Trowbridge Vehicle Rentals Ltd.

**Denise Crossley**  
Credit Solutions (Northern) Ltd.

**Yoshiaki Sakurai**  
Hitachi Credit Insurance Corp. Ltd.  
Hitachi Credit Reinsurance Ltd.

**Yuichiro Shimada**  
Hitachi Credit America Corp.

**Yoshiaki Kobori**  
Hitachi Credit (Hong Kong) Ltd.

**Satoru Muranaka**  
Hitachi Credit Singapore Pte. Ltd.

**Yoshimichi Ohtani**  
Hitachi Leasing (Singapore) Pte., Ltd.

(As of 20th June, 2003)

# Financial Section

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## Contents

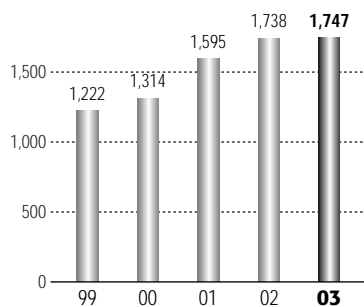
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## Management's Discussion and Analysis

### Volume of Business

(billion yen)



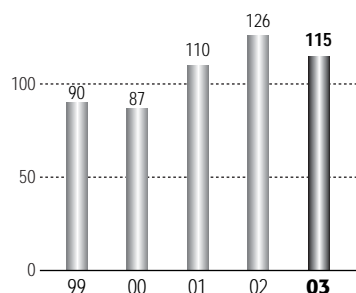
During fiscal 2003, the year ended 31st March, 2003, economic conditions in Japan remained extremely difficult. Private-sector capital expenditures and consumer spending languished as Japan continued to seek solutions for structural problems affecting its financial system and other sectors of the economy.

Amid these challenges, the Hitachi Capital Group continued to conduct customer-driven activities and enhanced specialized skills in its two business sectors – the finance business and the other financial services business – in line with the distinctive features and strategies of each sector. The company placed priority on attracting customers in new business fields and developing new products and services. Efforts were also made to increase volume in five expanding businesses – auto leasing, home appliance and refurbishment loans, home loans, financing for medical devices, and financing for the agricultural sector – pursuant to the company's medium-term management plan of October 2002.

Regarding the balance sheet, the group used its strong credit ratings to procure funds from capital markets and sell securitized assets. These funds were used to reduce interest-bearing debt and otherwise bolster the group's financial position. The group also placed priority on risk management, further refining its expertise in credit investigations and the management of receivables.

### Revenues

(billion yen)



### Business Overview

#### Volume of Business

The volume of business increased 0.5 percent to ¥1,746,946 million (US\$14,558 million). Business volume is underpinned by the company's broad customer base, its extensive network of business partners and sales bases, in-depth knowledge of products, financial engineering skills, and the ability to procure funds from capital markets.

#### Finance Business

The finance business encompasses two primary areas: leasing and loans extended to companies of all sizes, government agencies and farms; and financing for purchases by consumers. Targeting capital expenditures, the former entails the provision of loans and leasing of computers and other IT equipment, industrial machinery, medical devices and agricultural equipment. The latter helps consumers purchase goods and services that enhance their

standard of living, such as automobiles, home appliances, homes and home refurbishment services.

During fiscal 2003, automobile and home-appliance volume was weak due to lackluster consumer spending. Overall leasing volume also slowed, mainly due to low levels of capital expenditures, despite a high level of orders for computers and IT equipment in the second half. As a result, business volume remained mostly unchanged at ¥1,528,477 million (US\$12,737 million).

### Other Financial Services

This business consists of three sectors. The first is card services, where the company provides credit and payment services via credit cards to large but specific customer groups, such as the employees of a particular company. The second is securitization services, which entails corporate financial services such as the arrangement of securitization schemes and the brokerage and sale of securitization products. The third is outsourcing services. This business includes payment processing, bill collection and other settlement-related outsourcing services as well as the provision of various administrative tasks through outsourcing contracts.

The other financial services business saw volume increase 5.7 percent to ¥226,682 million (US\$1,889 million). Driving growth were efforts by the card services business to issue more multi-functional IC cards, and growth in securitization and outsourcing services due to an increase in the number of business partners and in the volume of business with Hitachi Capital Group members.

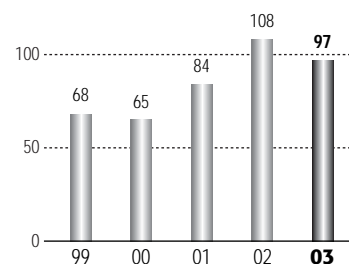
### Income Statement Analysis

#### Revenues

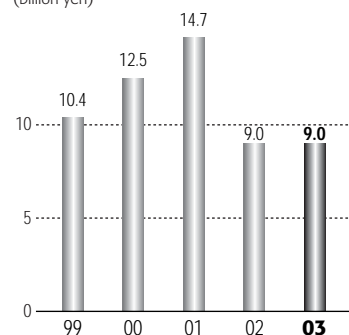
Revenues decreased 8.7 percent to ¥115,111 million (US\$959 million). The main factors were a 9.0 percent decrease in operating revenues to ¥112,360 million (US\$936 million) and a 58.0 percent drop in interest and dividend income to ¥262 million (US\$2 million). These declines were partly offset by a 28.6 percent increase in other income to ¥2,489 million (US\$21 million).

By business segment, revenues from the finance business fell 10.1 percent to ¥107,544 million (US\$896 million), while revenues from the other financial services business increased 18.2 percent to ¥12,796 million (US\$107 million).

**Expenses**  
(billion yen)

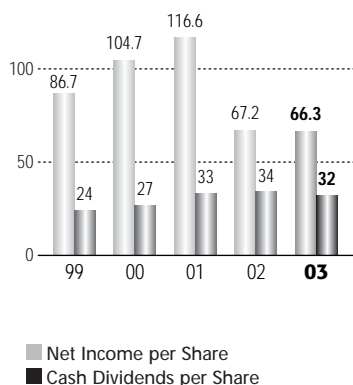


**Net Income**  
(billion yen)



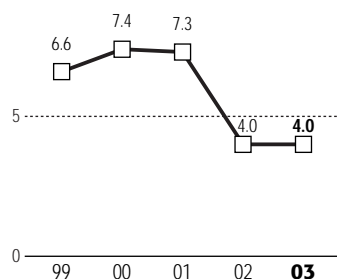
### Net Income and Cash Dividends per Share

(yen)



### Return on Equity

(%)



### Expenses

Expenses decreased 10.1 percent to ¥97,303 million (US\$811 million). This was due to declines of 18.9 percent in financing costs to ¥28,268 million (US\$236 million) and 50.9 percent in other expenses to ¥8,059 million (US\$67 million). These declines were partly negated by growth of 7.1 percent in selling, general and administrative expenses to ¥60,976 million (US\$508 million).

### Net Income

Income before income taxes and minority interests remained mostly unchanged at ¥17,808 million (US\$148 million). Net income edged down 0.6 percent to ¥8,961 million (US\$75 million). Net income per share was ¥66.3 (US\$0.55). The return on average equity was 4.0 percent. Cash dividends applicable to the year were ¥32.0 per share, ¥2 less than in the previous fiscal year. This is the sum of interim and year-end dividends of ¥16 per share.

### Credit Risk Management

The high quality of Hitachi Capital's assets is the result of the company's large base of creditworthy customers and its implementation of a stringent risk management program. A computerized scoring system is used to evaluate credit applications. This ensures that strict credit standards are applied at all times and improves the ability of front-line sales personnel to approve or reject applications. After credit is extended, receivables are managed using behavioral scoring and an adaptive control system. Under this framework, even small amounts of nonperforming receivables can be accurately monitored so that prompt action can be taken, including issuing non-payment notifications and credit collection. In this manner, Hitachi Capital is able to accurately monitor credit risk exposure while improving customer service by making quick decisions on credit applications.

### Financial Position

As of March 31, 2003, total assets remained largely unchanged at ¥2,014,590 million (US\$16,788 million), 3.1 percent less than one year earlier. Current assets fell 18.4 percent to ¥625,324 million (US\$5,211 million). This mainly reflected a sharp 50.7 percent decline in cash to ¥72,358 million (US\$603 million), mainly due to debt reductions, and a 16.3 percent fall in trade receivables to ¥440,449 million (US\$3,670 million) due to a decline in credit liquidation volume.

Property and equipment increased 6.3 percent to ¥1,346,717 million (US\$11,223 million). The main reason was an increase of 7.3 percent in leased assets to ¥1,339,905 million (US\$11,166 million).

On the other side of the balance sheet, current liabilities rose 7.7 percent to ¥852,226 million (US\$7,102 million). Commercial paper increased 91.9 percent to ¥125,920 million (US\$1,049 million). These increases outweighed a ¥25,572 million decrease in short-term bank loans to ¥22,303 million (US\$186 million), which reflected a greater emphasis on procuring funds from capital markets.

Long-term liabilities were ¥934,958 million (US\$7,791 million), down 11.4 percent compared with a year earlier.

Stockholders' equity was ¥222,789 million (US\$1,857 million). This mainly reflected an increase in retained earnings of ¥4,198 million and treasury stock repurchases of ¥8,133 million (US\$68 million).

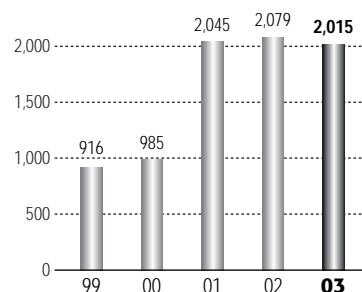
### Allowances for Losses on Receivables and Guarantees

There was a decrease of ¥1,070 million in the allowance for losses on receivables and guarantees, including additional depreciation provided for possible losses on disposal of leased assets, to ¥22,696 million (US\$189 million). On a consolidated basis, bad debts written off totaled ¥5,275 million (US\$44 million), representing 0.16 percent of trade receivables, loan guarantees and lease rentals, which totaled ¥3,197,832 million (US\$26,649 million).

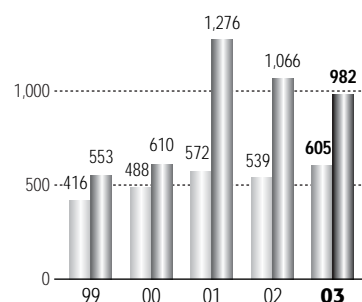
### Liabilities for Employees' and Directors' Retirement Benefits

Total liabilities for retirement benefits were ¥7,221 million (US\$60 million) as of 31st March, 2003, including ¥6,194 million (US\$52 million) for employees. As of 31st March, 2003, there were ¥32,601 million (US\$272 million) in projected benefit obligations and ¥12,795 million (US\$107 million) in plan assets. The remaining net loss on the transitional difference arising from the adoption of the current method for accounting for retirement benefits is ¥1,593 million (US\$13 million). This loss is being amortized in equal installments over a period of five years that began in April 2000. The remaining amortization period is two years. Actuarial differences were ¥15,897 million (US\$132 million). The company plans to amortize this difference over the average remaining period of service of employees covered. Retirement expenses of ¥3,391 million (US\$28 million) were recorded on the income statement in fiscal 2003.

**Total Assets**  
(billion yen)



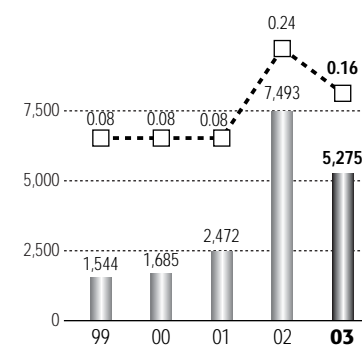
**Capital Market Instruments and Interest-Bearing Liabilities**  
(billion yen)



■ Capital Market Instruments  
■ Interest-Bearing Liabilities

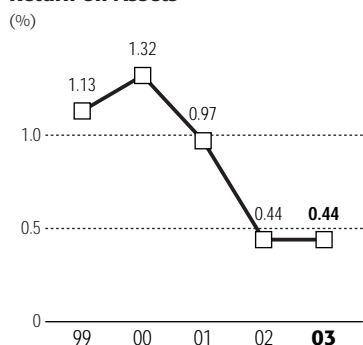
**Bad Debts Written Off, Bad Debt Ratio**

(million yen/%)



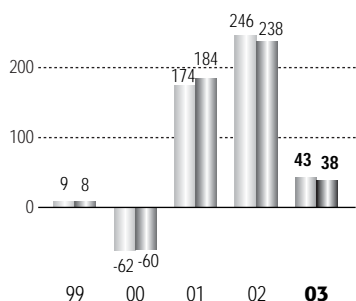
■ Bad Debts Written Off □ Bad Debt Ratio

### Return on Assets



### Net Cash Flows From Operating Activities and Free Cash Flows

(billion yen)



■ Net Cash Flows From Operating Activities  
 ■ Free Cash Flows

## Cash Flows

### Operating Activities

Net cash provided by operating activities was ¥43,277 million (US\$361 million), 82.4 percent less than in the previous fiscal year. The main components were depreciation of ¥459,253 million, acquisition of ¥675,156 million in equipment for leasing and cash inflows of ¥712,068 million from asset backed securitization.

### Investing Activities

Net cash used in investing activities was ¥5,197 million (US\$43 million), 32.8 percent less than in the previous fiscal year, mainly reflecting investments in information systems.

### Financing Activities

Net cash used in financing activities was ¥113,672 million (US\$947 million), 62.7 percent less than in the previous fiscal year. This mainly reflected the repayment of bank loans.

Free cash flows, the sum of operating and investing cash flows, totaled ¥38,080 million (US\$317 million).

## Five-Year Summary

Hitachi Capital Corporation and Subsidiaries  
Years ended 31st March

	In millions of Japanese yen, except per share data				
	2003	2002	2001	2000	1999
For the year:					
Volume of business	<b>¥1,746,946</b>	¥1,738,105	¥1,595,151	¥1,314,201	¥1,222,095
Revenues	<b>115,111</b>	126,018	109,794	87,434	89,717
Expenses	<b>97,303</b>	108,222	83,778	65,012	67,873
Interest expense	<b>26,022</b>	32,463	28,704	19,411	21,201
Interest coverage (times)	<b>1.68</b>	1.55	1.91	2.16	2.03
Income before income taxes and minority interests	<b>17,808</b>	17,796	26,016	22,422	21,844
Net income	<b>8,961</b>	9,017	14,728	12,503	10,352
Cash dividends paid	<b>4,541</b>	4,563	3,603	2,866	2,746
Bad debts written off	<b>5,275</b>	7,493	2,472	1,685	1,544
Percent of trade receivables, loan guarantees and lease rentals	<b>0.16%</b>	0.24%	0.08%	0.08%	0.08%
Per share (in yen):					
Net income (primary)	<b>¥ 66.3</b>	¥ 67.2	¥ 116.6	¥ 104.7	¥ 86.7
Net income (diluted)	<b>64.3</b>	65.2	112.0	99.9	82.7
Cash dividends paid and declared for the year	<b>32.0</b>	34.0	33.0	27.0	24.0
Stockholders' equity	<b>1,730</b>	1,697	1,663	1,501	1,336
At year-end:					
Trade receivables	<b>¥ 440,449</b>	¥ 526,076	¥ 559,742	¥ 392,932	¥ 392,477
Deferred income	<b>—</b>	—	—	31,561	30,591
Equipment held for leases	<b>1,339,905</b>	1,248,931	1,138,610	412,353	352,515
Total assets	<b>2,014,590</b>	2,078,630	2,045,438	984,576	915,773
Short-term and long-term bank loans	<b>377,907</b>	527,659	704,191	122,524	137,096
Straight bonds, convertible bonds and commercial paper	<b>604,669</b>	538,701	571,767	487,848	416,189
Stockholders' equity	<b>222,789</b>	227,759	223,140	179,247	159,605
Loan guarantees outstanding	<b>450,150</b>	508,611	673,196	637,622	587,631
Allowance for losses on receivables and guarantees	<b>16,063</b>	16,841	14,514	10,327	9,340
Residual value reserves	<b>6,633</b>	6,926	7,604	448	658
Number of employees	<b>3,554</b>	3,573	3,496	2,842	2,883

Notes: 1. Interest coverage = (Income before income taxes and minority interests + Interest expense)/Interest expense

On 1st October, 2000, the operations of Hitachi Credit and Hitachi Leasing were combined with the merger. Figures for the second half of the year ended 31st March, 2001 are for Hitachi Capital Corporation.

2. The volume of business figures in fiscal years prior to the year ended 31st March, 2002 have been revised to reflect the adoption of a new securitization scheme that is not included in the volume of business.

## Consolidated Balance Sheets

Hitachi Capital Corporation and Subsidiaries  
31st March, 2003 and 2002

Assets	Japanese yen (millions)		U.S. dollars (thousands) (Note 2)
	2003	2002	2003
<b>Current assets:</b>			
Cash (Note 16) .....	¥ 72,358	¥ 146,810	\$ 602,983
Trade receivables, including amounts maturing after one year (Note 6) .....	440,449	526,076	3,670,408
Less: Allowance for losses on receivables and guarantees .....	14,008	13,303	116,733
Net trade receivables .....	426,441	512,773	3,553,675
Parent company deposit (Note 16) .....	59,760	60,001	498,000
Short-term investments (Notes 5 and 16) .....	1,300	975	10,833
Prepaid expenses and other current assets (Note 9) .....	65,465	45,799	545,542
Total current assets .....	625,324	766,358	5,211,033
<b>Investments:</b>			
Equipment held for leases, at cost less accumulated depreciation (Notes 3 (f) and 18) 2003 — ¥1,766,322 million (\$14,719,350 thousand) 2002 — ¥1,667,460 million .....	1,339,905	1,248,931	11,165,875
Investments in securities (Notes 4 and 5) .....	4,717	6,240	39,308
Long-term loans, net of allowance for doubtful accounts 2003 — ¥2,055 million (\$17,125 thousand) (Note 6) 2002 — ¥3,538 million .....	2,095	11,361	17,458
Total investments .....	1,346,717	1,266,532	11,222,641
Property and equipment, at cost less accumulated depreciation .....	5,915	5,864	49,292
Other assets (Note 9) .....	36,634	39,876	305,284
	¥2,014,590	¥2,078,630	\$16,788,250

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Japanese yen (millions)		U.S. dollars (thousands) (Note 2)
	2003	2002	2003
<b>Current liabilities:</b>			
Short-term bank loans (Note 7) . . . . .	¥ 22,303	¥ 47,875	\$ 185,858
Commercial paper . . . . .	125,920	65,604	1,049,333
Current portion of long-term debt (Note 7) . . . . .	204,447	201,342	1,703,725
Trade payables (Note 8) . . . . .	238,176	225,018	1,984,800
Accrued expenses . . . . .	13,205	14,321	110,042
Obligation for securitization of lease receivables . . . . .	202,944	190,569	1,691,200
Income taxes payable (Note 9) . . . . .	3,618	5,886	30,150
Other current liabilities (Note 9) . . . . .	41,613	40,569	346,775
Total current liabilities . . . . .	852,226	791,184	7,101,883
Long-term debt (Note 7) . . . . .	629,906	751,539	5,249,217
Retirement and severance benefits (Notes 3 (h) and 10) . . . . .	6,194	6,270	51,617
Retirement benefits for directors (Note 3 (h)) . . . . .	1,027	834	8,558
Long-term obligation for securitization of lease receivables . . . . .	288,534	288,599	2,404,450
Other fixed liabilities (Note 9) . . . . .	9,297	8,552	77,475
Total liabilities . . . . .	1,787,184	1,846,978	14,893,200
Minority interests . . . . .	4,617	3,893	38,475
<b>Stockholders' equity (Note 11):</b>			
Common stock:			
Authorized 280,000,000 shares; issued 128,676,898 shares in 2003 and 134,190,884 shares in 2002 . . . . .	9,460	9,460	78,833
Capital surplus . . . . .	45,449	45,449	378,742
Retained earnings (Note 11): . . . . .	176,978	172,780	1,474,817
Net unrealized holding gain on securities in investments . . . . .	21	354	175
Foreign currency translation adjustments . . . . .	(986)	(282)	(8,217)
	230,922	227,761	1,924,350
Less cost of 5,514,728 shares in 2003 and 742 shares in 2002 of treasury stock (Notes 3(j) and 12) . . . . .	(8,133)	(2)	(67,775)
Total stockholders' equity . . . . .	222,789	227,759	1,856,575
	¥2,014,590	¥2,078,630	\$16,788,250

## Consolidated Statements of Income

Hitachi Capital Corporation and Subsidiaries  
Years ended 31st March, 2003, 2002 and 2001

	Japanese yen (millions)			U.S. dollars (thousands) (Note 2)
	2003	2002	2001	2003
<b>Revenues:</b>				
Operating revenues (Note 17) .....	<b>¥112,360</b>	¥123,458	¥105,769	<b>\$936,333</b>
Interest and dividends income .....	<b>262</b>	624	2,094	<b>2,183</b>
Other income (Note 13) .....	<b>2,489</b>	1,936	1,931	<b>20,742</b>
	<b>115,111</b>	126,018	109,794	<b>959,258</b>
<b>Expenses (Note 17):</b>				
Selling, general and administrative expenses .....	<b>60,976</b>	56,929	47,665	<b>508,133</b>
Financing costs .....	<b>28,268</b>	34,872	30,160	<b>235,567</b>
Other expenses (Note 13) .....	<b>8,059</b>	16,421	5,953	<b>67,158</b>
	<b>97,303</b>	108,222	83,778	<b>810,858</b>
Income before income taxes and minority interests .....	<b>17,808</b>	17,796	26,016	<b>148,400</b>
Income taxes (Note 9) .....	<b>8,068</b>	8,816	10,757	<b>67,233</b>
Minority interests .....	<b>779</b>	(37)	531	<b>6,492</b>
Net income	<b>¥ 8,961</b>	¥ 9,017	¥ 14,728	<b>\$ 74,675</b>

	Japanese yen			U.S. dollars (Note 2)
<b>Per share (Notes 3 (I) and 14):</b>				
Net income (primary) .....	<b>¥ 66.3</b>	¥ 67.2	¥ 116.6	<b>\$ 0.55</b>
Net income (diluted) .....	<b>64.3</b>	65.2	112.0	<b>0.54</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Stockholders' Equity

Hitachi Capital Corporation and Subsidiaries  
Years ended 31st March, 2003, 2002 and 2001

	Japanese yen (millions)			U.S. dollars (thousands) (Note 2)
	2003	2002	2001	2003
<b>Common stock:</b>				
Balance at beginning of year	¥ 9,460	¥ 9,460	¥ 7,650	\$ 78,833
Effect of merger	-	-	669	-
Conversion of convertible debentures	-	-	1,141	-
Balance at end of year	¥ 9,460	¥ 9,460	¥ 9,460	\$ 78,833
<b>Capital surplus:</b>				
Balance at beginning of year	¥ 45,449	¥ 45,449	¥ 42,879	\$ 378,742
Effect of merger	-	-	1,431	-
Conversion of convertible debentures	-	-	1,139	-
Balance at end of year	¥ 45,449	¥ 45,449	¥ 45,449	\$ 378,742
<b>Retained earnings:</b>				
Balance at beginning of year	¥172,780	¥168,559	¥128,718	\$1,439,833
Effect of merger	-	-	27,031	-
Effect of newly consolidated subsidiaries following merger	-	-	1,833	-
Effect of newly consolidated subsidiaries	-	-	16	-
Net income for the year	8,961	9,017	14,728	74,675
Cash dividends	(4,541)	(4,563)	(3,603)	(37,842)
Directors' bonus	(200)	(233)	(164)	(1,666)
Decrease arising from exclusion of equity-method affiliates	(22)	-	-	(183)
Balance at end of year	¥176,978	¥172,780	¥168,559	\$1,474,817
<b>Net unrealized holding gain on securities in investments:</b>				
Balance at beginning of year	¥ 354	¥ 431	¥ -	\$ 2,950
Net change during the year	(333)	(77)	431	(2,775)
Balance at end of year	¥ 21	¥ 354	¥ 431	\$ 175
<b>Foreign currency translation adjustments:</b>				
Balance at beginning of year	¥ (282)	¥ (758)	¥ -	\$ (2,350)
Net change during the year	(704)	476	(758)	(5,867)
Balance at end of year	¥ (986)	¥ (282)	¥ (758)	\$ (8,217)
<b>Treasury stock (Notes 3 (j) and 14):</b>				
Balance at beginning of year	¥ (2)	¥ (1)	¥ -	\$ (17)
Increase in treasury stock	(8,131)	(1)	(1)	(67,758)
Balance at end of year	¥ (8,133)	¥ (2)	¥ (1)	\$ (67,775)
Total stockholders' equity	¥222,789	¥227,759	¥223,140	\$1,856,575

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Hitachi Capital Corporation and Subsidiaries  
Years ended 31st March, 2003, 2002 and 2001

	Japanese yen (millions)			U.S. dollars (thousands) (Note 2)
	2003	2002	2001	2003
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests	¥ 17,808	¥ 17,796	¥ 26,016	\$ 148,400
Depreciation	459,253	414,122	267,046	3,827,108
Gain on return of substitutional portion of EPF (Note 10)	(562)	–	–	(4,683)
Loss on transfer of tax qualified pension plans (Note 10)	3,842	–	–	32,017
Loss on restructuring of overseas business	–	8,470	–	–
Impairment of securities	–	2,879	–	–
Interest and dividends income	(262)	(624)	(2,094)	(2,183)
Interest expenses	26,022	32,463	28,704	216,850
Loss (gain) on sale of securities	64	2,341	(510)	533
Decrease (increase) in trade receivables	11,452	52,770	(55,206)	95,433
Loss on sale of equipment for lease	4,541	236	1,380	37,842
Acquisition of equipment for lease	(675,156)	(549,306)	(360,973)	(5,626,300)
Proceeds from sale of equipment for lease	55,458	46,977	39,075	462,150
Increase (decrease) in trade payables	13,311	(52,786)	47,112	110,925
Cash provided by asset backed securitization	856,115	971,596	836,121	7,134,292
Payment for asset backed securitization	(712,068)	(684,629)	(651,175)	(5,933,900)
Increase (decrease) in retirement and severance benefits	(76)	427	57	(633)
Other	(6,130)	(3,426)	7,543	(51,084)
Income taxes paid	(10,335)	(13,133)	(9,410)	(86,125)
Net cash provided by operating activities	43,277	246,173	173,686	360,642
<b>Cash flows from investing activities:</b>				
Purchase of short-term investments	(1,677)	(4,310)	(5,105)	(13,975)
Proceeds from sale of short-term investments	999	5,204	6,560	8,325
Purchase of investments in securities and subsidiaries' common stock	(674)	(7,044)	–	(5,617)
Proceeds from sale of investments in securities	1,184	966	7,152	9,867
Capital expenditure	(5,777)	(3,203)	(1,754)	(48,141)
Proceeds from sale of capital assets	631	27	1,879	5,258
Interest and dividends received	117	629	1,879	975
Other	–	–	(112)	–
Net cash provided by (used in) investing activities	(5,197)	(7,731)	10,499	(43,308)
<b>Cash flows from financing activities:</b>				
Decrease in short-term bank loans	(23,423)	(80,878)	(77,379)	(195,192)
Increase (decrease) in commercial paper	61,690	(52,245)	14,546	514,083
Proceeds from long-term debt	104,316	111,693	256,457	869,300
Payment of long-term debt	(216,123)	(240,826)	(306,080)	(1,801,025)
Interest paid	(26,860)	(37,668)	(25,381)	(223,833)
Purchase of treasury stock	(8,131)	–	–	(67,758)
Dividends paid to stockholders	(4,541)	(4,563)	(3,603)	(37,842)
Dividends paid to minority stockholders of subsidiaries	(225)	(206)	(186)	(1,875)
Other	(375)	(325)	(466)	(3,125)
Net cash used in financing activities	(113,672)	(305,018)	(142,092)	(947,267)
<b>Effect of exchange rate changes on cash and cash equivalents</b>				
	546	830	332	4,550
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(75,046)</b>	<b>(65,746)</b>	<b>42,425</b>	<b>(625,383)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>207,620</b>	<b>273,366</b>	<b>175,647</b>	<b>1,730,166</b>
<b>Cash and cash equivalents increased by merger and newly consolidated subsidiaries</b>	<b>–</b>	<b>–</b>	<b>55,294</b>	<b>–</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥ 132,574</b>	<b>¥ 207,620</b>	<b>¥ 273,366</b>	<b>\$ 1,104,783</b>

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Hitachi Capital Corporation and Subsidiaries

## (1) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by Hitachi Capital Corporation (the Company) and its domestic subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan, and those maintained by its foreign subsidiaries in conformity with those of the countries of their domicile.

In addition, the consolidated financial statements, including the notes to the consolidated financial statements, presented herein have been compiled from the consolidated financial statements filed with the Ministry of Finance (the MOF report) as required by the Securities and Exchange Law of Japan and, for the convenience of readers outside Japan, include certain reclassifications and additional information which is not required under accounting principles generally accepted in Japan.

## (2) U.S. Dollar Amounts

The consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥120 to \$1, the approximate exchange rate at 31st March, 2003.

The inclusion of such dollar amounts does not imply that the assets and liabilities which originated in yen have been or could readily be converted, realized or settled in dollars at ¥120 to \$1 or at any other rate.

## (3) Significant Accounting Policies

### (a) Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries which are directly controlled: Okinawa Hitachi Capital Corp., Amic Services Corp., Hitachi Capital Data Services Co., Ltd., Hitachi Capital Service Co., Ltd., Hitachi Capital Auto Lease Corp., Hitachi Credit Securities Co., Ltd., Hitachi Triple Win Corp., Hitachi Leasing Rent, Ltd., Hitachi Leasing Service, Ltd., Sekisui Leasing Co., Ltd., Hitachi Credit (U.K.) PLC, Fleetlease (UK) Ltd., Trowbridge Vehicle Rentals Ltd., Credit Solutions (Northern) Ltd., Hitachi Credit Insurance Corp. Ltd., Hitachi Credit Reinsurance Ltd., Hitachi Credit America Corp., Hitachi Credit (Hong Kong) Ltd., Hitachi Credit Singapore Pte. Ltd., Hitachi Leasing (Singapore) Pte., Ltd., Hitachi Card Service Corp., which was established in Oct. 2002, and Hitachi-Ibaraki Triple Win Corp., which was newly consolidated are included in consolidated results for the year ended 31st March, 2003. All significant intercompany accounts have been eliminated in consolidation. The investments in affiliates are stated at its underlying equity value. The cost in excess of net assets acquired by the Company is being amortized using the straight-line method over five years in principle.

### (b) Volume of Business

Volume of business means the cash sales price of the goods plus the commission due from the customers (less the down payment in the case of purchases of installment receivables and loan guarantees where the Company and subsidiaries do not act as the sellers), and in the case of leases it means the total lease rentals receivable under the lease.

### (c) Recognition of Income

The Company and subsidiaries provide banks and other financial institutions with loan guarantee arrangements on behalf of customers who borrow funds necessary to purchase products. The commissions arising from such services are paid by the customers in full at the inception of the loans and are recognized as earned.

The Company and subsidiaries lease equipment to customers. Leases are accounted for as operating leases, and lease income from the lease contracts is recognized over the lease terms as it becomes

due. Lease cost, primarily depreciation, has been computed generally in proportion to the related lease income over the respective lease terms.

The Company and subsidiaries purchase installment receivables at the inception of the contracts between customers and the contracting retailers. In this type of arrangement, income, i.e., generally the difference between the installment sales price due from the customer and the cash sales price due to the contracting retailer, is deferred at the time of contract acquisition and recorded as earned when the monthly installments become due.

Customers who utilize installment credit facilities offered by the Company and subsidiaries are charged commissions computed at a predetermined fixed rate according to the number of monthly installment payments. Income from installment credits is deferred at the time of contract acquisition and recorded as earned when the monthly installments become due.

### (d) Allowance for Losses on Receivables and Guarantees

Receivables are classified in five categories divided by arrear of each debtor and the allowance for losses on receivables has been provided for estimated provable bad debts by each category. In addition, an allowance has been provided for estimated provable losses arising from loan guarantees outstanding as of each balance sheet date as same method as receivables.

### (e) Short-term Investments and Investments in Securities

The Company has been adopted "Accounting Standards for Financial Instruments" issued by the Business Accounting Deliberation Council. Under this standard, securities are to be classified into one of following three categories and accounted for as follows:

- Securities that are generally used with the objective of generating profits on short-term differences in price are classified as trading securities and measured at fair value, with unrealized holding gains and losses included in earnings.
- Securities that the company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and measured at amortized cost.

- Securities classified as neither trading securities nor held-to-maturity securities are classified as other securities and measured at fair value, with either unrealized holding gains and losses excluded from earnings and reported as a net amount in a separate component of stockholders' equity until realized or unrealized holding losses included in earnings and unrealized gains excluded from earnings and reported as a net amount in a separate component of stockholders' equity until realized.

Trading securities are carried at fair value with unrealized holding gains and losses included in earnings. Held-to-maturity securities are amortized or accumulated to face value. Other securities with a fair value are carried at fair value with unrealized holding gains and losses excluded from earnings and reported as a net amount in a separate component of stockholders' equity until realized. Other securities without a fair value are carried at cost. In computing realized gain or loss, cost of other securities was principally determined by the moving-average method.

#### **(f) Residual Value Reserves**

An allowance for losses on disposal of leased assets upon termination is included in accumulated depreciation. The Company provided for the allowance in the amount of ¥1,758 million (\$14,650 thousand) and appropriated for losses on disposal of leased assets in the amount of ¥2,049 million (\$17,075 thousand) for the period ended 31st March, 2003. As a result, the allowance included in accumulated depreciation was ¥6,633 million (\$55,275 thousand) at 31st March, 2003.

#### **(g) Income Taxes**

The Company has been adopted "Accounting Standards for Deferred Income Taxes" issued by the Business Accounting Deliberation Council. The standards require that deferred income taxes be accounted for under the asset and liability method. Under the asset and liability method deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

#### **(h) Retirement and Severance Benefits**

The Company has been adopted "Accounting Standard for Retirement Benefits" issued by the Business Accounting Deliberation Council. Under this standard, allowance for retirement and severance benefits for employees is provided based on the estimated retirement benefit obligation and the pension assets.

Retirement allowance for directors and corporate auditors have been made for the vested benefits to which they are entitled if they were to retire or sever immediately at the balance sheet date.

#### **(i) Foreign Currency Translation**

The Company has been adopted the revised "Accounting Standard for Foreign Currency Transaction" issued by the Business Accounting Deliberation Council. Under this standard, foreign currency transactions are translated into yen on the basis of the rates in effect at the transaction date or, if only the relation between a foreign currency transaction and related firm forward exchange contracts meets the criteria of hedge accounting as regulated in "Accounting Standards for Financial Instruments,"

those covered by firm forward exchange contracts can be translated at such contracts rates. At year-end, monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except for those, as described above, translated at related contract rates. Gains or losses resulting from the translation of foreign currencies, including gains and losses on settlement, are credited or charged to income as incurred.

The financial statements of the foreign subsidiaries are translated into the reporting currency of yen as follows: all assets and liabilities are translated at the rates of exchange in effect at the balance sheet date; stockholders' equity accounts are translated at historical rates; income and expenses are translated at an average of exchange rates in effect during the year; and a comprehensive adjustment resulting from translation of assets, liabilities and stockholders' equity is included in minority interests and, as "Foreign currency translation adjustments," a separate component of stockholders' equity.

#### **(j) Treasury stock**

Effective 1st April 2002, the Company adopted Accounting Standard Board of Japan Statement (ASBS) No. 1, "Accounting Standards for the Company's Own Shares and the Withdrawal of Legal Reserve." Under this standard, treasury stock is recorded at cost as a deduction of stockholders' equity. When the company reissues the treasury stock, the difference between the issuance price and the cost of the treasury stock is accounted for as capital surplus.

The adoption of the accounting standard did not have a material effect on the consolidated financial statements.

#### **(k) Appropriation of Retained Earnings**

Cash dividends, transfers to legal reserve, and directors' bonuses are recorded in the financial year during which such appropriations of retained earnings are made.

#### **(l) Per Share Data**

Effective 1st April 2002, the Company adopted ASBS No. 2, "Calculations of Earnings Per Share of the current net earnings." Under this standard, basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of shares of common shares outstanding during each year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Previously, net income per share was computed by dividing net income which includes the portion not available to common stockholders by the weighted average number of shares of common stock outstanding during each year.

#### **(m) Financial Instruments**

The Company has been adopted "Accounting Standards for Financial Instruments" issued by the Business Accounting Deliberation Council. Under this standard, installment accounts receivable shall be recorded at fair value less related interest income.

#### **(n) Derivative Financial Instruments**

The Company has been adopted "Accounting Standards for Financial Instruments" issued by the Business Accounting Deliberation Council. Under this standard, in principle, net asset or liability arising from derivative financial transaction is measured at fair value, with unrealized

gain or loss included in earnings. Hedging transaction, which meets the criteria of hedge accounting as regulated in "Accounting Standards for Financial Instruments," is accounted for using deferral hedge accounting, which requires the unrealized gain or loss to be deferred as a liability or asset until gain or loss relating to the hedge object is recognized.

Net assets or liabilities arising from derivative financial transactions are measured at fair value, except for interest rate option contracts, which are accounted for using deferral hedge accounting. In addition, certain foreign currency swap transactions and certain interest rate swap transactions are accounted for using the allocation method and the

special method, respectively, which are regulated in the standard. The allocation method requires recognized foreign currency receivables or payables covered by firm foreign currency swap transactions to be translated at such swap rates. Under the special method, interest rate swap transactions are accounted for as if the interest rates under those transactions were originally applied to underlying borrowings and debentures.

#### (o) Reclassification

Certain reclassifications have been made in prior year's consolidated financial statements to conform to classifications used in the current year's financial statements.

#### (4) Assets Deposited

As of 31st March, 2003 and 2002, certain securities of ¥39 million (\$325 thousand) were deposited as operating

guarantee money.

#### (5) Short-term Investments and Investments in Securities

The Company has been adopted "Accounting Standards for Financial Instruments," as discussed in note 3 (e).

As of 31st March, 2003 and 2002, there is no trading securities in the consolidated balance sheet.

The following is a summary of the amortized cost basis, gross unrealized holding gains or losses and aggregate fair value of held-to-maturity securities and other securities by major security type as of 31st March, 2003 and 2002.

	Japanese yen (millions)			U.S. dollars (thousands)		
	Amortized cost basis	Gross gain (loss)	Aggregate fair value	Amortized cost basis	Gross gain (loss)	Aggregate fair value
	<b>2003</b>			<b>2003</b>		
Held-to-maturity securities with gross unrealized holding gains:						
Bonds and debentures .....	¥ 39	¥ 2	¥ 41	\$ 325	\$ 17	\$ 342
	<u>¥ 39</u>	<u>¥ 2</u>	<u>¥ 41</u>	<u>\$ 325</u>	<u>\$ 17</u>	<u>\$ 342</u>
Other securities with gross unrealized holding gains:						
Equity securities .....	¥ 508	¥ 528	¥1,036	\$ 4,233	\$4,400	\$ 8,633
	<u>508</u>	<u>528</u>	<u>1,036</u>	<u>4,233</u>	<u>4,400</u>	<u>8,633</u>
Other securities with gross unrealized holding losses:						
Equity securities .....	3,344	(495)	2,849	27,867	(4,125)	23,742
	<u>3,344</u>	<u>(495)</u>	<u>2,849</u>	<u>27,867</u>	<u>(4,125)</u>	<u>23,742</u>
	<u><b>¥3,852</b></u>	<u><b>¥ 33</b></u>	<u><b>¥3,885</b></u>	<u><b>\$32,100</b></u>	<u><b>\$ 275</b></u>	<u><b>\$32,375</b></u>

	Japanese yen (millions)		
	Amortized cost basis	Gross gain (loss)	Aggregate fair value
	2002		
Held-to-maturity securities with gross unrealized holding gains:			
Bonds and debentures .....	¥ 39	¥ 2	¥ 41
	<u>¥ 39</u>	<u>¥ 2</u>	<u>¥ 41</u>
Other securities with gross unrealized holding gains:			
Equity securities .....	¥ 454	¥ 686	¥ 1,140
	454	686	1,140
Other securities with gross unrealized holding losses:			
Equity securities .....	3,365	(27)	3,338
Bonds and debentures .....	1,000	(64)	936
	<u>4,365</u>	<u>(91)</u>	<u>4,274</u>
	<u>¥4,819</u>	<u>¥ 595</u>	<u>¥5,414</u>

The write-down of certain other securities to the fair value in the amount of ¥40 million (\$333 thousand) and ¥2,878 million was included in earnings for the period ended 31st March, 2003 and 2002, respectively. The gross realized gains and losses on sale of other securities for the year ended 31st March, 2003, 2002 and 2001 are not material.

It is not practicable to estimate the fair value of investments in

non-marketable securities because of the lack of a market price and difficulty in estimating fair value without incurring excessive cost. The carrying amount of these securities at 31st March, 2003 and 2002 are not material.

Information about the contractual maturities of held-to-maturity securities and other securities with contractual maturities at 31st March, 2003 is as follows:

	Japanese yen (millions)		U.S. dollars (thousands)	
	After Within one year	After one year through five years	Within one year	one year through five years
	<b>2003</b>		<b>2003</b>	
Debt securities:				
Government bonds .....	¥ 24	¥15	\$ 200	\$125
Other .....	1,300	–	10,833	–
	<u>¥1,324</u>	<u>¥15</u>	<u>\$11,033</u>	<u>\$125</u>

## (6) Allowance for Losses on Receivables and Guarantees

The Company and subsidiaries provide the loan guarantee arrangements on behalf of customers. The outstanding balance of such loan guarantees as of 31st March, 2003 and 2002 were ¥450,150 million (\$3,751,250 thousand) and ¥508,611 million, respectively.

Loan guarantees collateralized by insurance policies at 31st March, 2003 and 2002, which eliminate risk to the Company and subsidiaries,

were included in the above balances in the amount of ¥4,496 million (\$37,467 thousand) and ¥7,395 million, respectively.

The Company's and subsidiaries' credit loss experiences and the allowance for losses on receivables and guarantees provided for the years ended 31st March, 2003 and 2002, are summarized as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2002	2003
Balance at beginning of year .....	¥16,841	¥14,514	\$140,342
Write-off against losses arising during the year .....	(5,275)	(7,493)	(43,959)
Provision .....	4,899	9,369	40,825
The effect of translation adjustments (Note 3 (i)) .....	(402)	451	(3,350)
Balance at end of year:			
Losses on receivables .....	12,763	13,741	106,358
Losses on guarantees .....	3,300	3,100	27,500
	<u>¥16,063</u>	<u>¥16,841</u>	<u>\$133,858</u>

## (7) Short-term Bank Loans and Long-term Debt

The weighted average interest rates on short-term bank loans outstanding at 31st March, 2003 and 2002 are 1.6 percent and 2.9 percent, respectively.

Long-term debt at 31st March, 2003 and 2002, was summarized as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2002	2003
Unsecured convertible bonds payable in Japanese yen, due September 2004, interest 1.8 percent . . . . .	¥ 9,148	¥ 9,148	\$ 76,233
Unsecured bonds payable in Japanese yen, due from May 2003 to September 2011, interest from 0.57 to 4.15 percent . . . . .	260,000	230,000	2,166,667
Notes in U.S. dollars, due July 2002, interest 6.625 percent . . . . .	—	22,820	—
Unsecured bonds payable in Japanese yen (for specific institutional investors), due from March 2005 to December 2010, interest from 0.52 to 1.98 percent . . . . .	80,000	70,000	666,667
Unsecured bonds payable in Japanese yen (for specific institutional investors), due from January 2004 to January 2006, interest from 1.5 to 2.24 percent . . . . .	18,500	18,500	154,167
Medium-term notes payable issued by Hitachi Credit America Corp., in U.S. dollars due from October 2003 to August 2004, interest BBA LIBOR plus 35 – 44 b.p. . . . .	25,242	31,314	210,350
Medium-term notes payable issued by Hitachi Credit (U.K.) PLC, in euro-yen, due from April 2003 to December 2006, interest GBP LIBOR plus 2 – 35 b.p. . . . .	85,859	90,231	715,492
Medium-term notes payable issued by Hitachi Leasing (Singapore) Pte., Ltd. in S.P. dollars due April 2002, interest 6mth. SOR plus 90 b.p. . . . .	—	1,084	—
Loans from banks and other financial institutions:			
Unsecured, maturing 2003 – 2015 and thereafter . . . . .	355,604	479,784	2,963,366
	<b>834,353</b>	952,881	<b>6,952,942</b>
Less current portion . . . . .	204,447	201,342	1,703,725
	<b>¥629,906</b>	¥751,539	<b>\$5,249,217</b>

The weighted average interest rates on long-term loans from banks and other financial institutions outstanding at 31st March, 2003 and 2002, shown above are 2.4 percent and 2.3 percent, respectively.

The aggregate annual maturities of long-term debt at 31st March, 2003 were as follows:

Years ending 31st March:	Japanese yen (millions)	U.S. dollars (thousands)
2005 . . . . .	¥ 181,666	\$1,513,883
2006 . . . . .	145,922	1,216,017
2007 . . . . .	78,439	653,658
2008 . . . . .	88,038	733,650
2009 and thereafter . . . . .	135,841	1,132,009
	<b>¥629,906</b>	<b>\$5,249,217</b>

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that securities and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due or in the event of default, to offset cash deposits against obligations due the bank.

(a) The unsecured convertible bonds in Japanese yen due September, 2004, with a 1.8 percent coupon rate, are redeemable in whole or in part, at the option of the Company, from 1st October, 1996 to 30th September, 2003 at premiums ranging

from 1 percent to 7 percent or at par thereafter, and were at 31st March, 2003, convertible into 5,547,604 shares of common stock at ¥1,649 per share.

(b) Hitachi Credit America Corp. established a U.S.\$300 million medium-term-note lending program with the Company's guarantee in March, 1998. At 31st March, 2001, the Company has extended a guarantee of U.S.\$300 million to \$400 million for this program.

The outstanding amount under the program was U.S.\$210 million as of 31st March, 2003.

(c) Hitachi Credit (U.K.) PLC established a U.S.\$500 million medium-term euro-note lending program in October, 1998. At 31st March, 2002, the Company has extended a guarantee of U.S.\$500 million to \$1,000 million for this program. The outstanding amount under the program was U.S.\$657

million as of 31st March, 2003.

(d) Each balance issued by the Company is fixed in Japanese yen as the transactions have been hedged using forward exchange contracts or currency swap agreements.

## (8) Trade Payables

Trade payables at 31st March, 2003 and 2002, were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2002	2003
Notes payable .....	<b>¥ 10,261</b>	¥ 14,741	<b>\$ 85,508</b>
Accounts payable .....	<b>227,915</b>	210,277	<b>1,899,292</b>
	<b>¥238,176</b>	¥225,018	<b>\$1,984,800</b>

Trade payables represent amounts arising from purchases of installment receivables and from purchases of goods and property sold or leased by the Company and subsidiaries.

Generally, notes payable become due from 30 to 180 days after the date of issue. The most common terms of maturity are from 30 to 90 days.

## (9) Income Taxes

Income tax expense attributable to income from continuing operations for the years ended 31st March, 2003, 2002 and 2001 consists of the following:

	Japanese yen (millions)			U.S. dollars (thousands)
	2003	2002	2001	2003
Current .....	<b>¥7,988</b>	¥11,547	¥11,818	<b>\$66,567</b>
Deferred .....	<b>80</b>	(2,731)	(1,061)	<b>666</b>
	<b>¥8,068</b>	¥ 8,816	¥10,757	<b>\$67,233</b>

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate resulted in a normal tax rate of approximately 42 percent for the year ended 31st March, 2003, 2002 and 2001.

On 31st March, 2003, a reduction of income tax rate for the business tax rate was enacted in Japan, and is effective from 1st April, 2004. With this adoption, the aggregated normal income tax rate for domestic companies will be approximately 40.4% for the year ending 31st

March, 2005. As a result, the effect of ¥300 million (\$2,500 thousand) on deferred tax assets, liabilities and related valuation allowance of a change in the normal tax rate is charged to income for the year ended 31st March, 2003.

Reconciliations between the normal statutory rate and the effective income tax rate as a percentage of income before income tax and minority interest are as follows:

	2003	2002
Normal statutory rate .....	<b>41.8%</b>	41.8%
Per capita tax .....	<b>0.7</b>	0.7
Expenses not deductible for tax purposes .....	<b>0.5</b>	1.1
Difference in statutory tax rates of foreign subsidiaries .....	<b>(3.3)</b>	5.0
Tax effect on investment in subsidiaries .....	<b>0.8</b>	(11.3)
Change in valuation allowance .....	<b>(1.0)</b>	8.5
Tax credit on dividend income .....	<b>1.4</b>	—
Adjustment to deferred tax assets and liabilities for enacted changes in business tax rate .....	<b>1.7</b>	—
Other .....	<b>2.7</b>	3.7
Effective income tax rate .....	<b>45.3%</b>	49.5%

The effective tax rate reflected in the accompanying consolidated statements of income for the year ended 31st March, 2003 and 2002 differ slightly from the normal statutory rate.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of 31st March, 2003 and 2002 are presented below:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2002	2003
Total gross deferred tax assets:			
Depreciation	¥ 6,465	¥ 7,981	\$ 53,875
Cumulative revenues from leasing contracts	2,078	—	17,317
Allowance for losses on receivables and guarantees	3,229	4,819	26,917
Retirement and severance benefits	1,791	810	14,925
Prepaid expenses	309	327	2,575
Accrued business taxes	329	504	2,742
Temporary difference of investment in subsidiaries	2,218	2,352	18,483
Net operating loss carryforwards	1,332	1,508	11,091
Other	3,505	2,770	29,208
	<b>21,256</b>	21,071	<b>177,133</b>
Valuation allowance	(1,332)	(1,508)	(11,100)
	<b>19,924</b>	19,563	<b>166,033</b>
Total gross deferred tax liabilities:			
Net unrealized holding gain on investments in other securities	(222)	(292)	(1,850)
Adjustment for liabilities at overseas subsidiaries	(1,051)	(723)	(8,758)
	<b>(1,273)</b>	(1,015)	<b>(10,608)</b>
Net deferred tax assets	<b>¥18,651</b>	¥18,548	<b>\$155,425</b>

Net deferred tax assets and liabilities as of 31st March, 2003 and 2002 are reflected in the accompanying consolidated balance sheets under the following captions:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2002	2003
Prepaid expenses and other current assets	¥ 8,106	¥ 6,629	\$ 67,550
Other assets	11,596	12,642	96,633
Other current liabilities	(1,051)	(722)	(8,758)
Other fixed liabilities	—	(1)	—
Net deferred tax assets	<b>¥18,651</b>	¥18,548	<b>\$155,425</b>

## (10) Retirement and Severance Benefits

The Company and its domestic subsidiaries have a number of contributory and noncontributory pension plans to provide retirement and severance benefits to substantially all employees.

Principal pension plans are unfunded defined benefit pension plans. Under the plans, employees are entitled to lump-sum payments based on the current rate of pay and the length of service upon retirement or termination of employment for reasons other than dismissal for cause. The liability under these plans is partially funded by contributions to trustee pension funds. Such contributions constitute funded status of the plans.

In addition to the above plans, the Company and certain subsidiaries have defined contribution plans.

The Company and certain domestic subsidiaries jointly established an Employees' Pension Fund plan (EPF), which are defined benefit pension plans established under the Japanese Welfare Pension Insurance Law. EPF is composed of the substitutional portion of Japanese Welfare Pension Insurance and the corporate portion based on a contributory defined benefit pension arrangement established at the discretion of employers.

Following the enactment of a law concerning the defined benefit

pension plan, the Company and certain domestic subsidiaries obtained an approval from the Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the substitutional portion of EPF on 13th June, 2002.

The Company and certain domestic subsidiaries applied the transitional provisions prescribed in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No. 13 issued by the Japanese Institute of Certified Public Accountants) to the return of the substitutional portion of EPF to the Japanese government. On the date of approval by Japan's Ministry of Health, Labour and Welfare, the Company recognized the settlement of the substitutional portion.

The fair value of plan assets to be returned to the government as of 31st March, 2003 is ¥11,757 million (\$97,975 thousand).

Following the enactment of the Defined Contribution Pension Law, the Company and certain domestic subsidiaries revised their retirement benefit plan on 31st October, 2002 and implemented a defined contribution pension plan and a monthly pension payment plan, at the option of the employees, on the same date.

The Company and certain domestic subsidiaries transferred their tax qualified pension plan to a defined contribution pension plan, a monthly pension payment plan and a closed defined benefit pension plan on 31st October, 2002. The transfer was accounted

in accordance with Financial Accounting Standards Implementation Guidance No. 1 "Accounting for Transfers between Retirement Benefit Plans."

The effect of returning the substitutional portion of EPF is summarized as follows:

	Japanese yen (millions)	U.S. dollars (thousands)
	<b>2003</b>	<b>2003</b>
Decrease in projected benefit obligation . . . . .	<b>¥ 19,769</b>	<b>\$ 164,742</b>
Plan assets to be returned . . . . .	<b>(11,769)</b>	<b>(98,075)</b>
Unrecognized net loss of transition difference . . . . .	<b>(2,501)</b>	<b>(20,842)</b>
Unrecognized actuarial loss . . . . .	<b>(4,937)</b>	<b>(41,142)</b>
Decrease in retirement and severance benefits . . . . .	<b>¥ 562</b>	<b>\$ 4,683</b>

The effect of the transition to a defined contribution pension plan and a closed defined benefit pension plan is summarized as follows:

	Japanese yen (millions)	U.S. dollars (thousands)
	<b>2003</b>	<b>2003</b>
Decrease in projected benefit obligation . . . . .	<b>¥ 7,622</b>	<b>\$ 63,516</b>
Transferred plan assets . . . . .	<b>(7,690)</b>	<b>(64,083)</b>
Unrecognized net loss of transition difference . . . . .	<b>(280)</b>	<b>(2,333)</b>
Unrecognized actuarial loss . . . . .	<b>(2,161)</b>	<b>(18,008)</b>
Unrecognized prior service costs . . . . .	<b>(1,164)</b>	<b>(9,700)</b>
Decrease in retirement and severance benefits . . . . .	<b>¥(3,673)</b>	<b>\$(30,608)</b>

Pension assets transferred from the tax qualified pension plan to the defined contribution benefit plan, the monthly pension payment plan and the closed pension plan were ¥2,897 million (\$24,142 thousand), ¥685 million (\$5,708 thousand) and ¥4,108 million (\$34,233

thousand), respectively. Additional contributions to the defined contribution benefit plan totaling ¥125 million (\$1,042 thousand) will be transferred over 4 years.

The funded status of the Company's pension plans as of 31st March, 2003 and 2002 is summarized as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	<b>2003</b>	2002	<b>2003</b>
Projected benefit obligation . . . . .	<b>¥ (32,601)</b>	¥(59,912)	<b>\$(271,675)</b>
Plan assets at fair value . . . . .	<b>12,795</b>	33,229	<b>106,625</b>
Funded status . . . . .	<b>(19,806)</b>	(26,683)	<b>(165,050)</b>
Unrecognized net loss of transition difference . . . . .	<b>1,593</b>	5,374	<b>13,275</b>
Unrecognized actuarial loss . . . . .	<b>15,897</b>	16,247	<b>132,475</b>
Unrecognized prior service cost . . . . .	<b>(3,707)</b>	379	<b>(30,892)</b>
Net amount recognized in the consolidated balance sheets . . . . .	<b>¥ (6,023)</b>	¥ (4,683)	<b>\$ (50,192)</b>

Amounts recognized in the consolidated balance sheets consist of:

Prepaid benefit cost . . . . .	<b>¥ 171</b>	¥ 1,587	<b>\$ 1,425</b>
Accrued benefit cost . . . . .	<b>(6,194)</b>	(6,270)	<b>(51,617)</b>
	<b>¥ (6,023)</b>	¥ (4,683)	<b>\$ (50,192)</b>

Net periodic benefit cost for the year ended 31st March, 2003, 2002 and 2001 consisted of the following components:

	Japanese yen (millions)			U.S. dollars (thousands)
	2003	2002	2001	2003
Service cost, net of participant contributions . . . . .	<b>¥1,510</b>	¥1,592	¥1,294	<b>\$12,583</b>
Interest cost . . . . .	<b>1,100</b>	1,877	1,828	<b>9,167</b>
Expected return on plan assets for the period . . . . .	<b>(748)</b>	(1,946)	(1,797)	<b>(6,233)</b>
Amortization of net loss of transition difference . . . . .	<b>999</b>	1,792	1,646	<b>8,325</b>
Amortization of actuarial loss . . . . .	<b>759</b>	580	—	<b>6,325</b>
Amortization of prior service cost . . . . .	<b>(229)</b>	28	15	<b>(1,909)</b>
Net periodic benefit cost . . . . .	<b>¥3,391</b>	¥3,923	¥2,986	<b>\$28,258</b>
Other (Contributions to the defined contribution pension plan) . . . . .	<b>¥ 105</b>	—	—	<b>\$ 875</b>
Gain on return of substitutional portion of EPF . . . . .	<b>(562)</b>	—	—	<b>(4,683)</b>
Loss on transfer of the tax qualified pension plan . . . . .	<b>3,842</b>	—	—	<b>32,017</b>

Actuarial assumptions and the basis used in accounting for the Company's plans are principally as follows:

- Discount rates at 31st March, 2003 and 2002 are 2.5 percent and 3.0 percent, respectively.
- Expected rates of return at 31st March, 2003 and 2002 are 4.0 percent and 6.0 percent, respectively.
- Net loss of transition difference in the amount of ¥8,829 million as of 1st April, 2000 is amortized using the straight-line method over 5 years.
- Actuarial loss is amortized using the straight-line method over 7 to 16 years, which is within the estimated average remaining service years of employees.
- Prior service cost is amortized using the straight-line method over 7 to 16 years, which is within the estimated average remaining service years of employees.

## (11) Stockholders' Equity

At 31st March, 2003 and 2002, approximately 53 percent of the outstanding capital stock of the Company was owned by Hitachi, Ltd.

The Company has authorized for issuance 280 million shares of common stock. The Japanese Commercial Code (JCC) had required designation of par value to all common stock at least 50 percent of new share issuance price, or the common stock par value prescribed by the JCC. Effective October 1, 2001, the JCC was amended to eliminate the provision of common stock par value resulting in all common stock being recorded with no par value.

JCC had provided that earnings in an amount equal to at least 10 percent of appropriations of retained earnings to be paid in cash be appropriated as a legal reserve until such reserve equals 25 percent of stated common stock. This legal reserve was not available for dividends but might be used to reduce a deficit by resolution of stockholders or might be transferred to stated common stock by resolution of the Board of Directors.

Effective October 1, 2001, the JCC was amended to require earnings in an amount equal to at least 10 percent of appropriations of retained earnings to be paid in cash be appropriated as a legal reserve until total additional paid in capital and legal reserve equals 25 percent of stated

common stock. Either additional paid in capital or legal reserve may be available for dividends by resolution of the stockholders to the extent that the amount of total additional paid in capital and legal reserve exceeds 25 percent of stated common stock.

The Board of Directors, with subsequent approval of the stockholders, has made annual appropriations of retained earnings for various purposes, the accumulated balance of which is designated as "voluntary reserve" and is included in retained earnings in the accompanying consolidated statements of stockholders' equity. Any disposition of such appropriations shall be at the discretion of the Board of Directors and stockholders.

The accompanying financial statements do not include any provision for the dividend of ¥16 (\$0.13) per share aggregating ¥2,059 million (\$17,158 thousand), or for related appropriations for directors' bonuses by the Company. The latter amounted to ¥100 million (\$833 thousand). Also not included was an appropriation of ¥93 million (\$775 thousand) for directors' bonuses by its subsidiaries. These appropriations received approval at the subsequent stockholders' meetings held in respect of the year ended 31st March, 2003.

## (12) Treasury Stock

The Japanese Commercial Code (JCC) had imposed certain restrictions on acquisition and disposal of treasury stock. Effective 1st October, 2001, the JCC eliminated the provision of these restrictions and allowed acquisitions of treasury stock to the extent of funds appropriated by the resolution of the stockholders.

As of 31st March, 2003, the Company held 3,528 shares of the Company's common stock as treasury stock as a result of acquisitions of shares from stockholders holding less than a trading lot (100 shares) upon request by the stockholder pursuant to the provisions of the JCC. The stockholders may request the Company to acquire their shares below a trading lot as any number of shares below a trading lot cannot be publicly traded and does not carry on a voting right.

In April 2003, the board of directors proposed to acquire up to 10,000,000 shares of the Company's common stock for aggregate acquisition price not exceeding ¥15,000 million (\$125,000

thousand) as treasury stock for the period from the close of the ordinary general stockholders' meeting to the close of the next ordinary general stockholders' meeting, pursuant to the provisions of the JCC. This proposal was approved in the ordinary general stockholders' meeting in June 2003.

At the ordinary general stockholders' meeting on 21st June, 2002, it was approved to acquire up to 6,000,000 shares of the Company's common stock for aggregate acquisition price not exceeding ¥10,000 million as treasury stock for the period from the close of the ordinary general stockholders' meeting to the close of the next ordinary general stockholders' meeting, pursuant to the provision of the JCC. Under the approval, the Company acquired a total of 5,511,200 shares for ¥8,127 million (\$67,725 thousand) during the year ended 31st March, 2003. Additionally, in April 2003, the Company acquired a total of 488,800 shares for ¥672 million (\$5,600 thousand).

## (13) Other Income and Other Expenses

As described in Note 10, a gain of ¥562 million (\$4,683 thousand) on return of substitutional portion of EPF was included in "Other income" and a loss of ¥3,842 million (\$32,017 thousand) on transfer of their tax qualified pension plan was included in "Other expense" for the period ended 31st March, 2003.

A loss of ¥8,470 million on restructuring of overseas business and a loss of ¥2,879 million on impairment of securities were included in "Other expenses" for the period ended 31st March, 2002. A provision for losses on disposal of vehicles lease in the amount of ¥818 million was included in "Other expenses" for the year ended 31st March, 2001.

## (14) Net Income Per Share Information

Effective 1st April 2002, the Company adopted ASBS No. 2, "Calculations of Earnings Per Share of the current net earnings" as discussed note 3(l).

The reconciliation of the number of shares and the amounts used in the basic and diluted net income per share computations is as follows:

	Number of shares	
	<b>2003</b>	
Weighted average number of shares on which basic net income per share is calculated . . . . .	<b>132,259,409</b>	
Effect of dilutive securities:		
Convertible debentures . . . . .	<b>5,547,604</b>	
Number of shares on which diluted net income per share is calculated . . . . .	<b>137,807,013</b>	
	Japanese yen (millions)	U.S. dollars (thousands)
	<b>2003</b>	<b>2003</b>
Net income . . . . .	<b>¥8,961</b>	<b>\$74,675</b>
Appropriations for directors' bonuses . . . . .	<b>(193)</b>	<b>(1,608)</b>
Net income on which basic net income pershare is calculated . . . . .	<b>8,768</b>	<b>73,067</b>
Effect of dilutive securities:		
Interest paid . . . . .	<b>99</b>	<b>825</b>
Net income on which diluted net income per share is calculated . . . . .	<b>¥8,867</b>	<b>\$73,892</b>
	Japanese yen	U.S. dollars
Net income per share:		
Basic . . . . .	<b>¥66.3</b>	<b>\$0.55</b>
Diluted . . . . .	<b>64.3</b>	<b>0.54</b>

## (15) Related Parties

The Company's balances with parent company as of 31st March, 2003 and 2002, and related transactions for each of the years in the three year period ended 31st March, 2003 are summarized as follows.

	Japanese yen (millions)		U.S. dollars (thousands)	
	2003	2002	2003	
Balances:				
Receivables-current .....	<b>¥75,787</b>	¥69,114	<b>\$631,558</b>	
Receivables-non-current .....	<b>719</b>	678	<b>5,992</b>	
Payables-current .....	<b>15,085</b>	24,852	<b>125,708</b>	
	Japanese yen (millions)		U.S. dollars (thousands)	
	2003	2002	2001	
Transactions:				
Revenue .....	<b>¥52,433</b>	¥ 48,489	¥ 37,008	<b>\$436,942</b>
Purchases .....	<b>57,309</b>	108,423	281,819	<b>477,575</b>
Interest income .....	<b>68</b>	—	—	<b>567</b>

## (16) Consolidated Statements of Cash Flows – Supplementary Information

For the purpose of the statements of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value which have maturities of generally three months or less when purchased to be cash equivalents.

(a) Cash and cash equivalents at 31st March, 2003, 2002 and 2001, classified by account on the balance sheets were as follows:

	Japanese yen (millions)			U.S. dollars (thousands)
	2003	2002	2001	2003
Cash on hand and at bank .....	<b>¥ 72,358</b>	¥146,810	¥272,529	<b>\$ 602,983</b>
Deposit money in the parent company .....	<b>59,760</b>	60,001	—	<b>498,000</b>
Short-term securities within 3 months, maturity .....	<b>456</b>	809	837	<b>3,800</b>
Cash and cash equivalents .....	<b>¥132,574</b>	¥207,620	¥273,366	<b>\$1,104,783</b>

(b) Hitachi Leasing Rent, Ltd., Hitachi Leasing Service, Ltd., Hitachi Leasing Europe, Ltd., Hitachi Leasing America, Ltd., and Hitachi Leasing (Singapore) Pte., Ltd., were newly consolidated due to

the merger with Hitachi Leasing, Ltd., during the year ended 31st March, 2001. Assets and liabilities of Hitachi Leasing, Ltd. and its subsidiaries are as follows:

	Japanese yen (millions)
Current assets .....	<b>¥210,140</b>
Investments .....	<b>728,819</b>
Total assets .....	<b>938,959</b>
Current liabilities .....	<b>346,606</b>
Other liabilities .....	<b>561,341</b>
Total liabilities .....	<b>907,947</b>

Common stock was increased ¥669 million and capital surplus was increased ¥1,431 million due to the merger on 1st October, 2000.

(c) Noncash financing activities:

Convertible bonds of ¥2,280 million were converted into common stock during the year ended 31st March, 2001.

## (17) Segment Information

The segment information is shown below.

### (a) Industry Segment Information

As members of the Hitachi Group, the Company and subsidiaries provide a wide range of financial services to respond to the various needs of manufacturing, commercial and consumer clients. Although there is a wide range of financial services, the Company and subsidiaries have been categorized in two industries, Finance and Other

financial services. The Company has changed the industry segment classification commencing from 1st April, 2002. Figures for the years ended 31st March, 2002 and 2001 have been restated to conform to classification used in the current year's presentation.

Japanese yen (millions)					
	Finance	Other financial services	Total	Elimination and/or corporate	Consolidated
<b>2003</b>					
<b>Revenues:</b>					
Revenues for third parties . . . . .	¥ 107,473	¥ 6,430	¥ 113,903	¥ 1,208	¥ 115,111
Intersegment revenues . . . . .	71	6,366	6,437	(6,437)	—
Total . . . . .	107,544	12,796	120,340	(5,229)	115,111
<b>Expenses</b> . . . . .	83,960	11,240	95,200	2,103	97,303
<b>Income before income taxes and minority interests</b> . . . . .	¥ 23,584	¥ 1,556	¥ 25,140	¥(7,332)	¥ 17,808
Assets . . . . .	¥1,899,401	¥124,535	¥2,023,936	¥(9,346)	¥2,014,590
Depreciation . . . . .	457,755	100	457,855	1,398	459,253
Addition to tangible and intangible fixed assets . . . . .	676,981	219	677,200	3,733	680,933

U.S. dollars (thousands)					
	Finance	Other financial services	Total	Elimination and/or corporate	Consolidated
<b>2003</b>					
<b>Revenues:</b>					
Revenues for third parties . . . . .	\$ 895,608	\$ 53,583	\$ 949,191	\$ 10,067	\$ 959,258
Intersegment revenues . . . . .	592	53,050	53,642	(53,642)	—
Total . . . . .	896,200	106,633	1,002,833	(43,575)	959,258
<b>Expenses</b> . . . . .	699,667	93,666	793,333	17,525	810,858
<b>Income before income taxes and minority interests</b> . . . . .	\$ 196,533	\$ 12,967	\$ 209,500	\$(61,100)	\$ 148,400
Assets . . . . .	\$15,828,342	\$1,037,791	\$16,866,133	\$(77,883)	\$16,788,250
Depreciation . . . . .	3,814,625	833	3,815,458	11,650	3,827,108
Addition to tangible and intangible fixed assets . . . . .	5,641,508	1,825	5,643,333	31,108	5,674,441

- i) Segment categories are defined according to business line and industry fields. (see "Management's Discussion and Analysis.")  
Card business, Securitization business and Outsourcing business are combined into "Other financial services."
- ii) ¥644 million (\$5,367 thousand) stated in the column of "Elimination and/or corporate" which belongs to the "Revenues" for third party, is "Interest and dividends income" in the head office.

- iii) The amounts of ¥4,680 million (\$39,000 thousand) in the column of "Elimination and/or corporate" of "Expenses," are administrative expenses of the head office.
- iv) The amount of ¥49,595 million (\$413,292 thousand) for "Elimination and/or corporate" of "Assets," is mainly extra cash for funding—cash, securities—, the long-term investment—, investment in securities— and assets belonging to the head office.

	Japanese yen (millions)				
	Finance	Other financial services	Total	Elimination and/or corporate	Consolidated
	2002				
<b>Revenues:</b>					
Revenues for third parties	¥ 119,494	¥ 4,964	¥ 124,458	¥ 1,560	¥ 126,018
Intersegment revenues	90	5,859	5,949	(5,949)	–
Total	119,584	10,823	130,407	(4,389)	126,018
<b>Expenses</b>					
	96,393	8,974	105,367	2,855	108,222
<b>Income before income taxes and minority interests</b>					
	¥ 23,191	¥ 1,849	¥ 25,040	¥(7,244)	¥ 17,796
Assets	¥1,967,001	¥119,191	¥2,086,192	¥(7,562)	¥2,078,630
Depreciation	412,924	60	412,984	1,138	414,122
Addition to tangible and intangible fixed assets	550,735	94	550,829	1,680	552,509

i) Segment categories are defined according to business line and industry fields. (see "Management's Discussion and Analysis.")

Card business, Securitization business and Outsourcing business are combined into "Other financial services."

ii) ¥1,560 million stated in the column of "Elimination and/or corporate" which belongs to the "Revenues" for third party, is "Interest and dividends income" in the head office.

iii) The amounts of ¥5,933 million in the column of "Elimination and/or corporate" of "Expenses," are administrative expenses of the head office.

iv) The amount of ¥39,973 million for "Elimination and/or corporate" of "Assets," is mainly extra cash for funding—cash, securities—, the long-term investment—, investment in securities— and assets belonging to the head office.

	Japanese yen (millions)				
	Finance	Other financial services	Total	Elimination and/or corporate	Consolidated
	2001				
<b>Revenues:</b>					
Revenues for third parties	¥ 104,059	¥ 3,525	¥ 107,584	¥ 2,210	¥ 109,794
Intersegment revenues	828	5,822	6,650	(6,650)	–
Total	104,887	9,347	114,234	(4,440)	109,794
<b>Expenses</b>					
	78,103	7,162	85,265	(1,487)	83,778
<b>Income before income taxes and minority interests</b>					
	¥ 26,784	¥ 2,185	¥ 28,967	¥(2,953)	¥ 26,016
Assets	¥1,819,708	¥168,488	¥1,988,196	¥57,247	¥2,045,438
Depreciation	266,218	39	266,257	789	267,046
Capital expenditures	361,971	76	362,047	680	362,727

i) Segment categories are defined according to business line and industry fields. (see "Management's Discussion and Analysis.")

Card business, Securitization business and Outsourcing business are combined into "Other financial services."

ii) ¥2,210 million stated in the column of "Elimination and/or corporate" which belongs to the "Revenues" for third party, is "Interest and dividends income" in the head office.

iii) The amounts of ¥4,890 million in the column of "Elimination and/or corporate" of "Expenses," are administrative expenses of the head office.

iv) The amount of ¥85,016 million for "Elimination and/or corporate" of "Assets," is mainly extra cash for funding—cash, securities—, the long-term investment—, investment in securities— and assets belonging to the head office.

## (b) Geographic Segment Information

	Japanese yen (millions)			U.S. dollars (thousands)
	2003	2002	2001	2003
<b>Revenues</b>				
Japan .....	¥ 89,451	¥ 99,204	¥ 85,593	\$ 745,425
Europe and North America .....	20,986	23,005	21,480	174,883
Other areas .....	4,176	3,824	2,721	34,800
Intersegment elimination .....	498	(15)	–	4,150
Consolidated total .....	¥ 115,111	¥ 126,018	¥ 109,794	\$ 959,258
<b>Expenses</b>				
Japan .....	¥ 71,958	¥ 76,264	¥ 61,985	\$ 599,650
Europe and North America .....	17,909	22,222	19,461	149,242
Other areas .....	3,658	9,751	2,331	30,483
Intersegment elimination .....	3,778	(15)	–	31,483
Consolidated total .....	¥ 97,303	¥ 108,222	¥ 83,777	\$ 810,858
<b>Income before income taxes and minority interests</b>				
Japan .....	¥ 17,493	¥ 22,940	¥ 23,608	\$ 145,775
Europe and North America .....	3,077	783	2,019	25,641
Other areas .....	518	(5,927)	390	4,317
Intersegment elimination .....	(3,280)	–	–	(27,333)
Consolidated total .....	¥ 17,808	¥ 17,796	¥ 26,017	\$ 148,400
<b>Assets</b>				
Japan .....	¥1,793,769	¥1,793,925	¥1,732,718	\$14,948,075
Europe and North America .....	198,078	245,102	263,417	1,650,650
Other areas .....	30,166	39,603	49,303	251,383
Intersegment elimination .....	(7,423)	–	–	(61,858)
Consolidated total .....	¥2,014,590	¥2,078,630	¥2,045,438	\$16,788,250

## (18) Lease Information

### Finance leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are generally accounted for by the method that is applicable to ordinary operating leases.

Certain key information about such lease contracts of the Company for the year ended 31st March, 2003 and 2002 is as follows:

### (a) Lessee

- (i) Acquisition costs, accumulated depreciation and net balance of leased assets at 31st March, 2003 and 2002, if they had been capitalized:

	31st March, 2003			U.S. dollars (thousands)
	Acquisition cost	Accumulated depreciation	Net balance	Net balance
Furniture and equipment .....	¥1,576	¥786	¥790	\$6,583
Total .....	¥1,576	¥786	¥790	\$6,583

	31st March, 2002		
	Acquisition cost	Accumulated depreciation	Net balance
Furniture and equipment .....	¥1,365	¥724	¥ 641
Total .....	¥1,365	¥724	¥ 641

(ii) Future lease payments (Includes non-accrued payments on underwritten leases at year end.)

	31st March		
	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2002	2003
Within one year .....	<b>¥ 79,152</b>	¥ 90,403	<b>\$ 659,600</b>
Over one year .....	<b>105,955</b>	142,756	<b>882,958</b>
Total .....	<b>¥185,107</b>	¥233,159	<b>\$1,542,558</b>

(iii) Comparison of lease payments with depreciation and interest expense, if they had been capitalized:

	For the year ended 31st March		
	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2002	2003
Lease payments .....	<b>¥407</b>	¥396	<b>\$3,392</b>
Depreciation .....	<b>405</b>	409	<b>3,375</b>
Interest expense .....	<b>12</b>	22	<b>100</b>

(b) Lessor

(i) Acquisition costs, accumulated depreciation and net balance of leased assets at 31st March, 2003 and 2002 included in equipment held for lease.

	31st March, 2003			
	Japanese yen (millions)		U.S. dollars (thousands)	
	Acquisition cost	Accumulated depreciation	Net balance	Net balance
Equipment held for lease .....	<b>¥1,849,527</b>	<b>¥852,769</b>	<b>¥996,758</b>	<b>\$8,306,317</b>

	31st March, 2002			
	Japanese yen (millions)		U.S. dollars (thousands)	
	Acquisition cost	Accumulated depreciation	Net balance	Net balance
Equipment held for lease .....	¥1,737,414	¥839,436	¥897,978	

(ii) Future lease payments to be received (Includes non-accrued payments on underwritten leases at year end.)

	31st March		
	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2002	2003
Within one year .....	<b>¥ 428,530</b>	¥ 416,891	<b>\$ 3,571,083</b>
Over one year .....	<b>813,017</b>	762,552	<b>6,775,142</b>
Total .....	<b>¥1,241,547</b>	¥1,179,443	<b>\$10,346,225</b>

(iii) Comparison of lease income with depreciation and interest income

	For the year ended 31st March		
	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2002	2003
Lease income .....	<b>¥390,412</b>	¥375,170	<b>\$3,253,433</b>
Depreciation .....	<b>340,514</b>	332,622	<b>2,837,617</b>
Interest income .....	<b>33,023</b>	27,201	<b>275,192</b>

Operating leases  
 (a) Lessee  
 Future lease payments

	31st March		U.S. dollars (thousands)
	Japanese yen (millions)	2002	
	<b>2003</b>		<b>2003</b>
Within one year . . . . .	<b>¥ 63</b>	¥128	<b>\$525</b>
Over one year . . . . .	<b>17</b>	81	<b>142</b>
Total . . . . .	<b>¥ 80</b>	¥209	<b>\$667</b>

(b) Lessor  
 Future lease payments to be received

	31st March		U.S. dollars (thousands)
	Japanese yen (millions)	2002	
	<b>2003</b>		<b>2003</b>
Within one year . . . . .	<b>¥ 71,358</b>	¥ 64,684	<b>\$ 594,650</b>
Over one year . . . . .	<b>134,316</b>	129,981	<b>1,119,300</b>
Total . . . . .	<b>¥205,674</b>	¥194,665	<b>\$1,713,950</b>

## (19) Financial Instruments

The Company and certain subsidiaries operate globally, are exposed to market risks arising from fluctuations in foreign currency exchange rates and interest rates. In order to manage those risks, the Company and certain subsidiaries enter into various derivative financial agreements, including forward exchange contracts, foreign currency swap agreements, interest rate swap agreements and interest rate option contracts. Forward exchange contracts and foreign currency swap agreements are utilized to manage risks arising from foreign currency receivables; foreign currency payables; and forecasted foreign currency transactions. Interest rate swap agreements and interest rate option contracts are utilized to manage interest rate risk for debts. The Company and subsidiaries have no derivative financial instruments for trading purposes. In addition, the Company and subsidiaries are exposed to credit-related losses in the event of non-performance by counterparties to financial instruments and derivative financial

instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are authentic financial institutions.

The Company and subsidiaries have also developed hedging policies to control various aspects of derivative financial transactions including authorization levels and transaction volumes. Based on this policy, the Company and subsidiaries hedge, within certain scopes, risks arising from changes in foreign currency exchange rates and interest rates. The Company and subsidiaries review periodically the effectiveness of all hedge policies to take account of the cumulative cash flows and any changes in the market.

The estimated fair values of the derivative financial instruments, excluding certain instruments, which are accounted for using deferral hedge accounting, allocation method and special method by major instrument type as of 31st March, 2003 and 2002 are as follows:

	Japanese yen (millions)			U.S. dollars (thousands)		
	Notional amounts	Estimated fair values	Unrealized gains (losses)	Notional amounts	Estimated fair values	Unrealized gains (losses)
		<b>2003</b>			<b>2003</b>	
Interest rate swap agreements:						
Floating rate to fixed rate . . . .	<b>¥ 315</b>	<b>¥ (0)</b>	<b>¥(0)</b>	<b>\$ 2,625</b>	<b>\$ (0)</b>	<b>\$ (0)</b>
Interest rate and foreign currency swap agreements:						
Floating rate to fixed rate . . . .	<b>5,261</b>	<b>64</b>	<b>64</b>	<b>43,842</b>	<b>533</b>	<b>533</b>
			<b>¥64</b>			<b>\$533</b>

	Japanese yen (millions)		
	Notional amounts	Estimated fair values	Unrealized gains (losses)
	2002		
Interest rate swap agreements:			
Floating rate to fixed rate .....	¥7,282	¥ (46)	¥ (46)
Floating rate to floating rate .....	250	—	—
Interest rate and foreign currency swap agreements:			
Floating rate to fixed rate .....	9,469	(439)	(439)
			<u>¥(485)</u>

The fair values of derivative financial instruments are estimated on the basis of information obtained from third party financial institutions.

## (20) Commitment and Contingencies

The Company provides certain revolving lines of credit to its credit card holders in accordance with the terms of the credit card business customer service contracts. Furthermore, the Company provides credit facilities to parties in accordance with the service agency

business contracts from which temporary payments on behalf of such parties are made. The outstanding balance of the revolving lines of credits as of 31st March, 2003 and 2002 are as follows:

	Japanese yen (millions)		U.S. dollars (thousands)
	2003	2002	2003
Total revolving lines of credit available .....	<b>¥678,415</b>	¥686,409	<b>\$5,653,458</b>
Amount utilizes .....	<b>852</b>	70	<b>7,100</b>
Balance available .....	<b>¥677,563</b>	¥686,339	<b>\$5,646,358</b>

A portion of the revolving lines of credit which are pending credit approval cannot be utilized.

Contingent liabilities for guarantees of employee's housing loans

amounted to ¥50 million (\$417 thousand) and ¥62 million as of 31st March 2003 and 2002 respectively.

## Independent Auditors' Report

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The Board of Directors and Shareholders  
Hitachi Capital Corporation

We have audited the accompanying consolidated balance sheets of Hitachi Capital Corporation and subsidiaries as of March 31st, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended March 31st, 2003, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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, expressed in yen, present fairly, in all material respects, the financial position of Hitachi Capital Corporation and subsidiaries as of March 31st, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended March 31st, 2003, in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31st, 2003 are presented solely for the convenience of the reader. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note (2) to the consolidated financial statements.



Shin Nihon & Co.  
Tokyo, Japan  
June 20, 2003

See Note (1) to the consolidated financial statements, which explain the basis of preparing the consolidated financial statements of Hitachi Capital Corporation under Japanese accounting principles and practices.

# Corporate Data

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**Corporate Name**

Hitachi Capital Corporation

**Founded**

1957  
(incorporated in 1960)

**Number Of Employees**

Consolidated: 3,554

**Volume Of Business**

Finance Business:	¥1,528,477 million
Other Financial Services Business:	¥ 226,682 million
Intersegment Elimination:	¥ (8,213) million
Total:	¥1,746,946 million

**Common Stock**

Authorized: 280,000,000 shares  
Issued: 134,191,626 shares

**Stockholders**

9,418  
(as of 31st March, 2003)

**Stock Listing**

Tokyo Stock Exchange

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**Head Office**

15-12, Nishi Shimbashi 2-chome  
Minato-ku, Tokyo 105-8712, Japan  
Phone: +81-3-3503-2111  
Facsimile: +81-3-3580-7267  
<http://www.hitachi-capital.co.jp/>

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**Regional Head Offices**

**Shutoken Company Consumer Sales**  
18-2, Iidabashi 2-chome  
Chiyoda-ku, Tokyo 102-8105

**Shutoken Company Business**  
18-2, Iidabashi 2-chome  
Chiyoda-ku, Tokyo 102-8105

**Honsha Dai-ichi**  
18-2, Iidabashi 2-chome  
Chiyoda-ku, Tokyo 102-8105

**Honsha Dai-ni**  
18-2, Iidabashi 2-chome  
Chiyoda-ku, Tokyo 102-8105

**Honsha Dai-san**  
18-2, Iidabashi 2-chome  
Chiyoda-ku, Tokyo 102-8105

**Rental**  
1-17, Koishikawa 1-chome  
Bunkyo-ku, Tokyo 112-0002

**Kanto**  
18-2, Iidabashi 2-chome  
Chiyoda-ku, Tokyo 102-8105

**Kansai**  
11-7, Utsubo-honmachi 1-chome  
Nishi-ku, Osaka, Osaka 550-0004

**Kyushu**  
1-35, Tenya-machi, Hakata-ku  
Fukuoka, Fukuoka 812-8605

**Chubu**  
15-33, Sakae 3-chome  
Naka-ku, Nagoya, Aichi 460-0008

**Tohoku**  
10-17, Ichiban-cho 2-chome  
Aoba-ku, Sendai, Miyagi 980-8545

**Hokushinetsu**  
2-37, Takaoka-machi  
Kanazawa, Ishikawa 920-8642

**Chugoku**  
5-25 Fukuromachi, Naka-ku  
Hiroshima, Hiroshima 730-0036

**Hokkaido**  
3-11, Odori-Nishi, Chuo-ku  
Sapporo, Hokkaido 060-8624

**Shikoku**  
1-5, Ban-cho 1-chome  
Takamatsu, Kagawa 760-8507

# Consolidated Subsidiaries

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## Japan

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**Okinawa Hitachi Capital Corp.**  
9-1, Kumoji 2-chome, Naha  
Okinawa 900-0015

**Amic Services Corp.**  
22-10, Shimbashi 5-chome  
Minato-ku, Tokyo 105-0004

**Hitachi Capital Data Services Co., Ltd.**  
8-11, Nishi Shimbashi 2-chome  
Minato-ku, Tokyo 105-0003

**Hitachi Capital Service Co., Ltd.**  
1-14, Uchi Kanda 1-chome  
Chiyoda-ku, Tokyo 101-0047

**Hitachi Capital Auto Lease Corp.**  
22-10, Shimbashi 5-chome  
Minato-ku, Tokyo 105-0004

**Hitachi Credit Securities Co., Ltd.**  
15-12, Nishi Shimbashi 2-chome  
Minato-ku, Tokyo 105-0003

**Hitachi Triple Win Corp.**  
7-1, Nishi Shimbashi 3-chome  
Minato-ku, Tokyo 105-0003

**Hitachi Leasing Service, Ltd.**  
18-2, Iidabashi 2-chome  
Chiyoda-ku, Tokyo 102-0072

**Sekisui Leasing Co., Ltd.**  
13-8, Nishitenman 4-chome  
Kita-ku, Osaka, Osaka 530-0047

**Hitachi Card Service Corp.**  
15-12, Nishi Shimbashi 2-chome  
Minato-ku, Tokyo 105-0003

## Europe and North America

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**Hitachi Credit (U.K.) PLC**  
Wallbrook Business Centre, Green Lane  
Hounslow, Middlesex TW4 6NW  
England

**Fleetlease (UK) Ltd.**  
Kiln House 54A Kiln Road, Newbury  
Berkshire RG14 2HA, England

**Trowbridge Vehicle Rentals Ltd.**  
Quarry House, Canal Road  
Trowbridge Wiltshire BA14 8QU  
England

**Credit Solutions (Northern) Ltd.**  
Techno Center Station Rd., Horsforth  
Leeds, Yorkshire LS18 5BJ, England

**Hitachi Credit Insurance Corp. Ltd.**  
3rd Floor, St. James House,  
Adelaide Road, Dublin 2, Republic of  
Ireland

**Hitachi Credit Reinsurance Ltd.**  
3rd Floor, St. James House,  
Adelaide Road, Dublin 2, Republic of  
Ireland

**Hitachi Credit America Corp.**  
777 West Putnam Avenue, Greenwich  
CT 06830, U.S.A.

## Other Areas

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**Hitachi Credit (Hong Kong) Ltd.**  
16th Floor, Wai Fung Plaza, 664  
Nathan Road, Kowloon, Hong Kong

**Hitachi Credit Singapore Pte. Ltd.**  
268 Orchard Road #11-01  
Singapore 238856

**Hitachi Leasing (Singapore) Pte., Ltd.**  
3 Killiney Road, #04-07  
Winsland House  
Singapore 239519

(As of 20th June, 2003)

# Investor Information

## Composition of Stockholders (as of 31st March, 2003)

Financial Institutions	40,334,870	30.05%
Securities Companies	424,154	0.32%
Other Japanese Corporations	72,574,161	54.08%
Foreign Investors	6,462,663	4.82%
Japanese Individuals and Others	14,395,778	10.73%
<b>Total</b>	<b>134,191,626</b>	<b>100.00%</b>

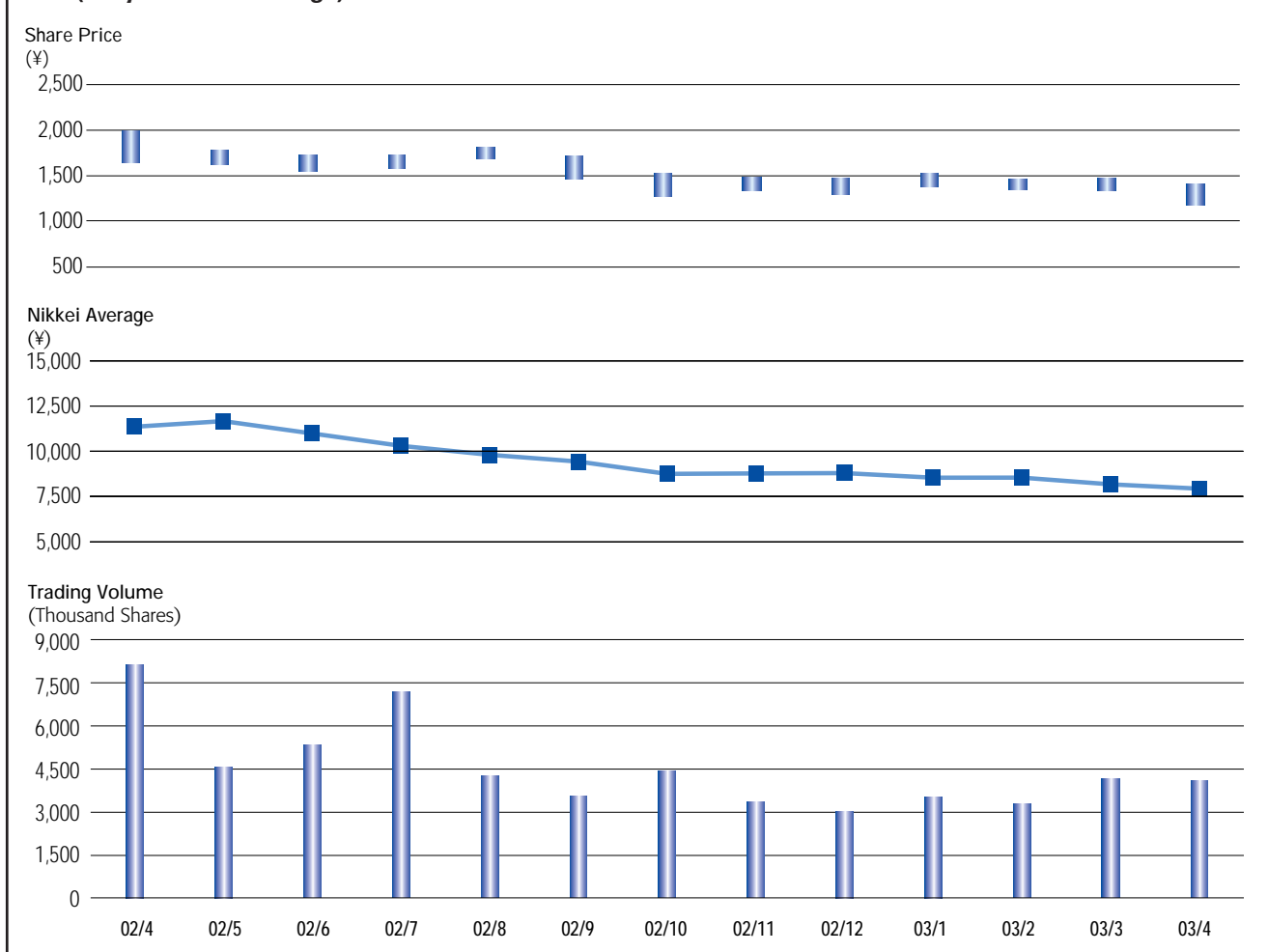
## Number of Shares Owned (as of 31st March, 2003)

Less than 100	5,913	0.01%
100 or more	1,556,256	1.16%
1,000 or more	6,157,315	4.59%
10,000 or more	5,880,846	4.38%
100,000 or more	11,180,241	8.33%
1,000,000 or more	109,411,055	81.53%
<b>Total</b>	<b>134,191,626</b>	<b>100.00%</b>

## Major Stockholders (as of 31st March, 2003)

	Number of shares held	Percentage of shares held
Hitachi, Ltd.	67,246	50.11%
The Master Trust Bank of Japan, Ltd.	8,787	6.55%
Trust & Custody Services Bank, Ltd.	7,749	5.77%
Japan Trustee Services Bank, Ltd.	7,584	5.65%
Hitachi High-Technologies Corporation	2,525	1.88%
Mitsui Asset Trust and Banking Company, Limited	2,164	1.61%
The Norinchukin Trust & Banking Co., Ltd.	1,660	1.24%
UFJ Trust Bank Limited	1,588	1.18%
Nikko Citi Trust and Banking Corporation	1,311	0.98%
SOMPO JAPAN INSURANCE INC.	1,241	0.93%

## (Tokyo Stock Exchange)



 **Hitachi Capital Corporation**

15-12, Nishi Shimbashi 2-chome  
Minato-ku, Tokyo 105-8712, Japan  
Phone: +81-3-3503-2111  
<http://www.hitachi-capital.co.jp/>