



A N N U A L R E P O R T 2 0 0 6

Moving forward! CLS continues to advance in its efforts to become an appealing corporation.



Moving forward! CLS continues to advance in its efforts to become an appealing corporation.



Century Leasing System, Inc. established its basic corporate vision “Expand business deriving from core business,” under the goal of sustained growth of NC-Plan II, our three-year medium-term plan, and we have taken various measures to achieve these goals. As a result of these efforts, we have achieved three consecutive years of record earnings. In NC-Plan III, our next medium-term plan, which started in fiscal 2006, we added “Innovating ourselves” and “Advancing strategic allocations” to the existing points of focus under the corporate vision, “Expand business deriving from core business.” We are implementing reforms in the three areas—reform of marketing competency, transformation of financial structure, and revitalization of management system. We are striving through these efforts to become a corporation that appeals to all our stakeholders. Century Leasing System, Inc. is focused on steadily advancing strategic allocations, continuing to reform itself, and expanding its business scope.

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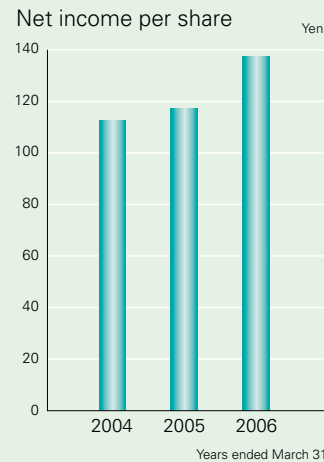
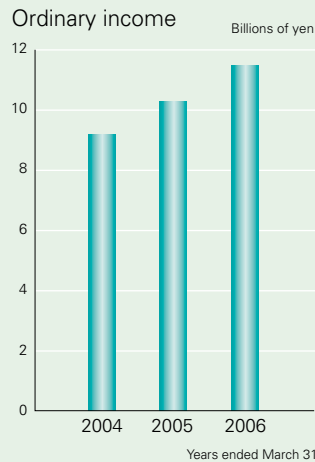
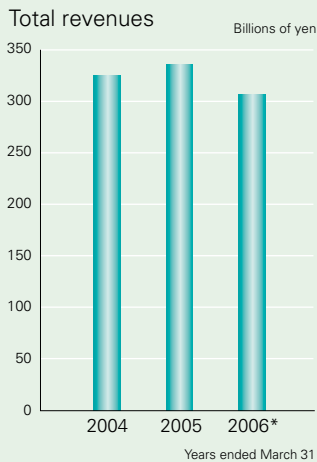
FINANCIAL HIGHLIGHTS

Century Leasing System, Inc. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen		
	2004	2005	2006
Total revenues*1	¥323,290	¥333,830	¥307,057
Operating income*1	9,524	10,559	10,663
Ordinary income	9,245	10,256	11,524
Net income	5,353	6,158	7,202
Total assets	742,344	745,934	750,125
Shareholders' equity	36,698	42,197	50,308
	%		
Shareholders' equity ratio	4.9	5.7	6.7
ROA*2	1.2	1.4	1.5
ROE	18.3	15.6	15.6
	Yen		
Net income per share	112.42	117.36	137.21
Shareholders' equity per share	703.72	808.74	964.17

*1 The decline in total revenue and the slight increase in operating income are mainly attributable to the exclusion of Century Auto Leasing Co., Ltd. (currently Nippon Car Solutions Co., Ltd.) from consolidated companies.

*2 Return on assets: ordinary income / the average balance of total assets for the term.



* Total revenues in 2006 declined primarily due to the exclusion of Century Auto Leasing Co., Ltd. (currently Nippon Car Solutions Co., Ltd.) from consolidated companies.

Forward-Looking Statements

This annual report contains forward-looking statements about Century Leasing System's future plans, beliefs and performance that are not historical facts. These forward-looking statements are presented to inform stakeholders of the views of Century Leasing System's management but should not be relied on as the only factors in making investment and other decisions. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from this information, which is based on assumptions and beliefs in light of information currently available to the management. Readers are cautioned not to place undue reliance on these forward-looking statements. The company assumes no obligation to update forward-looking statements to reflect actual results due to new information, future events or other developments.

Achieved three consecutive years of record earnings

In fiscal 2005 ended March 31, 2006, the final year of NC-PLAN II, our medium-term plan, we actively worked to achieve targets set in the plan. As a result, net sales of Century Leasing System, Inc. and its consolidated subsidiaries dropped 8.0% to ¥307 billion due to the exclusion of Century Auto Leasing Co., Ltd. (CAL) from the consolidated companies of the Group following its merger into a new company, Nippon Car Solutions Co., Ltd. (NCS). Ordinary Income for the Group rose 12.4% to ¥11.5 billion as a result of investment profit associated with the application of equity method to NCS as well as a decline in funding costs. Net income increased 17.0% to ¥7.2 billion, marking three consecutive years of record highs.

Shareholders' equity rose 19% to ¥50.3 billion due to a reporting of a considerable amount of earnings. Shareholders' equity ratio improved from 5.7% in the previous fiscal year to 6.7%. With regard to cash dividends, we decided to pay year-end dividends ¥2.50 per common share larger than our forecast at the beginning of the term under review, resulting in annual dividend of ¥20 per common share.



Established Nippon Car Solutions Co., Ltd.

Century Auto Leasing Co., Ltd. (CAL), a consolidated subsidiary of CLS, and NTT Auto Leasing Co., Ltd., a consolidated subsidiary of Nippon Telegraph and Telephone Corporation (NTT) merged into new company, Nippon Car Solutions Co., Ltd. (NCS) on October 1, 2005. NCS, as one of the major car leasing companies in Japan, manages approximately 170,000 cars. The company started business as a distinctive auto leasing company, benefiting from the sales infrastructure and management resources of both CAL and NTT Auto Leasing Co., Ltd., and boasts strengths in the leasing business for individuals and the development of IT-based high value-added services, using NTT Group's IT technologies. CLS will reinforce its alliance with NCS and expand the Group's sales infrastructure.



Acquired credit ratings from R&I in addition to the existing JCR ratings

To enhance our credit standing, we acquired ratings (long-term: A-; short-term: a-1) from Rating and Investment Information, Inc. (R&I) in February 2006, following the acquisition of ratings (long-term: A-; short-term: J-1) from the Japan Credit Rating Agency, Ltd. (JCR). We made an initial issuance of our unsecured straight bonds valued at ¥10 billion yen to diversify our direct funding vehicles.

	JCR	R&I
	Long-term Senior Debt	Issuer Rating
	A-	A-
Preliminary Rating for Bonds Registered for Issuance Expected Issue Amount: ¥150 billion	A-	A-
Euro MTN Program Maximum Outstanding Amount: Equivalent to US\$1 billion	A-	A-
Commercial Paper Maximum Outstanding Amount: ¥250 billion	J-1	a-1

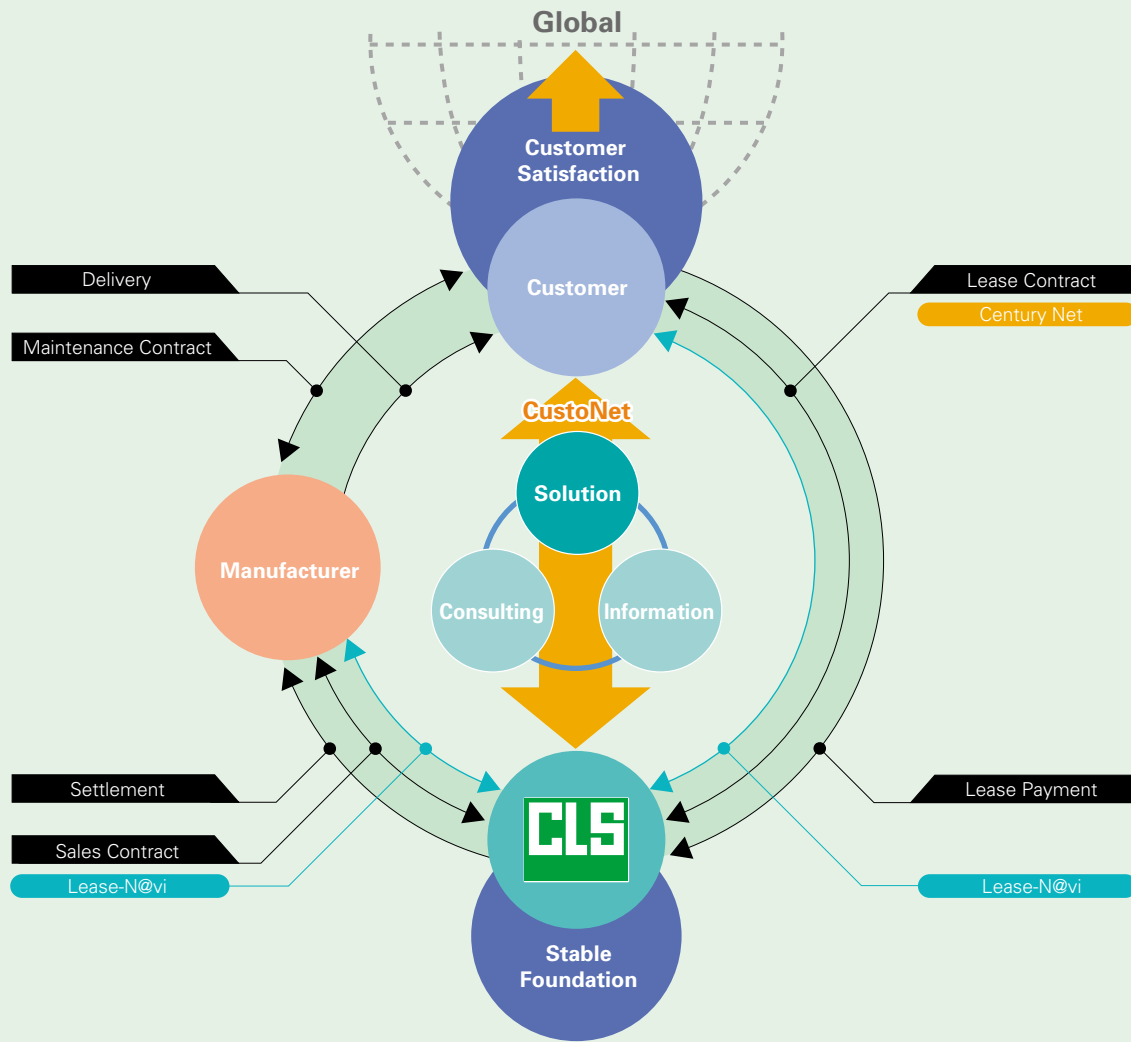
Acquired international standard, ISO 27001 certification

CLS acquired ISO/IEC 27001:2005 certification, an international standard for Information Security Management System (ISMS) in March 2006. We established and started to operate our ISMS in November 2004. In addition, we simultaneously obtained ISMS British Standard BS 7799-2:2002 and ISMS Japanese Standard ISMS Certification Criteria Ver. 2.0 in March, 2005, following the adoption of BS 7799-2:2002 as an international standard under ISO/IEC 27001:2005 in October 2005. We underwent a qualifying review to convert our existing BS certification into ISO/IEC 27001:2005.



IS91018-ISO27001 EMS506044-ISO14001

Business Model



Expanding high value-added services based on IT-related services with leasing and installment sales as our core business

With our core leasing and installment sales business, CLS provides high value-added services based on sophisticated leasing schemes and a variety of functions in solid alliances with manufacturers and dealers. These high value-added services are supported by customer satisfaction (CS) activities and a strong IT infrastructure.

CustoNet, our system for communicating with customers, plays a central role in our knowledge management. The system facilitates the collection, sharing, analysis, and commercializing of customer needs and supports the

development and delivery of unique services.

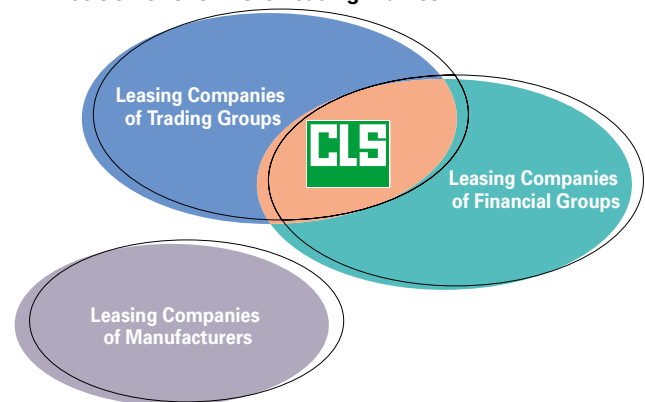
We also deploy our IT infrastructure, one of the most advanced core operating systems in the industry, to add collateral value to our core business. In this way, we are able to provide innovative services that respond to the needs of diverse customers from large, medium, and small companies, both existing and new. These unique business models help us understand emerging customer needs and develop high value-added services to expand our business into new areas.

Profile

Century Leasing System, Inc. (CLS) was jointly incorporated in 1969 by four shareholders: ITOCHU Corporation, Daiichi Bank, Ltd. (currently Mizuho Corporate Bank, Ltd.), Nippon Life Insurance Company, and Asahi Mutual Life Insurance Company. CLS responds to customers' capital investment-related needs as a diversified leasing company that offers integrated services based on the information resources and business expertise of our trading companies and the financing capabilities and solid management infrastructure of our financial institutions. We promote customer satisfaction-oriented management and provide services that accurately respond to diversifying customer needs. We have accumulated high-quality assets and have achieved stable growth in earnings through continually expanding the business scope of the company.

As a result of these efforts, CLS listed its shares on the Second Section of the Tokyo Stock Exchange in September 2003. In September 2004, our shares were moved to the First Section of the Tokyo Stock Exchange.

Position of CLS in the Leasing Market



Our Competency

Leveraging our sales competency in the information equipment leasing business and CS activities to continuously innovate leasing business models

IT-related equipment accounts for a major share of our leasing operations, the core business of the company, reflecting our close business relationships with IT equipment manufacturers and sales companies. In fiscal 2005, while IT-related equipment accounted for 35% of Japan's total capital investment financed by leasing, IT-related equipment accounted for 46% of the total value of our leases. The sales infrastructure and expertise we have developed over years in the IT-related equipment business represent our key competencies. By fully leveraging these competencies, we have successfully developed and established new businesses, including PC Total Service (PTS), which provides one-stop PC services from purchase to disposal, as well as the refurbishment business to refurbish and sell used, out-of-lease PCs. Another key competency is our customer satisfaction (CS)

activities. Through our efforts to constantly respect customer comments and requests and reflect their needs in our products and services, we have been able to develop unique risk-hedged products such as weather and earthquake leases. Furthermore, through the provision of various outsourcing services, we support customers in improving management efficiency. For instance, we provide products and services desired by customers, such as C-NET, a system for comprehensively managing leased assets, and our Overseas Business Support service for customer capital investment overseas. These high value-added, lease-related derivative services, which reflect our management goal "Expand business deriving from core business," are steadily growing into major drivers of our operations.

Value of New Lease Contracts: Results (CLS vs. entire leasing industry)



VISION AND STRATEGY

Message from the President to Shareholders

From NC-Plan II to NC-Plan III —Advancing towards becoming an appealing corporation



Mitsuaki Fukuda
President & CEO

A major contributor to the success of NC-Plan II was the expansion and reinforcement of core business under the vision “Expand business deriving from core business”.

Q Could you summarize the overall results of NC-Plan II?

A Fiscal 2005 ended March 31, 2006 was the final year for NC-Plan II, our three-year medium-term plan launched in fiscal 2003. To achieve the plan's targets, we established basic goals for strengthening our core competencies in sales, finance, and management and have strived to enhance profitability through our efforts to satisfy customers and to develop and provide products and services that meet diverse customer needs.

In fiscal 2005, ordinary income amounted to ¥11.5 billion, up 28%, while net income reached ¥7.2 billion, an increase of 92% compared with fiscal 2002 ended March 31, 2003. These figures exceeded the targets, which we had revised upward from the original plan. Operating assets edged up by 1% due to the exclusion of assets of Century Auto Leasing Co., Ltd. (currently Nippon Car Solutions Co., Ltd.) valued at ¥50.1 billion from our consolidated financial statements and the application of the equity method to the company. Given this exclusion, operating assets essentially rose 9%. Shareholders' equity more than doubled as a result of strong earning growth and the public offering of new shares in September 2003. Shareholders' equity ratio rose from 2.9% to 6.7% while ROA, one of our management indicators, rose to 1%, exceeding the original target of 0.7%.

Cash dividends increased for three consecutive years, benefiting from our favorable corporate performance for the period. Cash dividends in fiscal 2005 ended March 31, 2006 rose to ¥20 from ¥10 per common share in fiscal 2002 ended March 31, 2003.

NC-Plan II Numerical Targets for Operations

Year ended March 2003		
		Results (fiscal year ending March 2003)
Income Plan	Ordinary Income	¥9.0 billion
	Net Income	¥3.8 billion
B/S Plan	Operating Assets	¥684.2 billion
	Shareholders' equity	¥21.8 billion
	Shareholders' equity ratio	2.9%
Management Indicator	ROA*1	0.5%

Year ended March 2006 (final year of the plan)		
Original Targets	Results	Growth Rate (results for year ending March 2006)
¥10.0 billion	¥11.5 billion	28%
¥5.7 billion	¥7.2 billion	92%
¥712.0 billion	¥694.3 billion*2	1%
¥46.0 billion	¥50.3 billion	131%
5.8%	6.7%	–
0.7%	1.0%	–

*1: Return on assets: net income / the average balance of total assets for the term. Under the new management plan, we use the ratio of ordinary income to total assets instead of net income to total assets.

*2: Operating assets (valued at ¥50.1 billion as of March 31, 2005) of Century Auto Leasing Co., Ltd. (CAL) are excluded due to the application of equity method to the company. Adding the ¥50.1 billion from CAL to operating assets valued at ¥694.3 billion increases operating assets by 9%.

Q What contributed most to your success in achieving results that exceeded your planned targets?

A The main contributors were steady growth in the value of new contracts in our leasing and installment sales operation and the expansion of our loan business. Focusing on businesses derived from our core business over the past three years was another driver of success.

Other factors included an improved credit standing as a result of listing shares on the Tokyo Stock Exchange, reduced funding costs under the flexible ALM policy for diversifying funding vehicles, and the low value of bad loans, and the growth of the auto leasing business in Group companies.

Q Could you describe the activities for enhancing your sales infrastructure?

A We developed and enhanced our sales infrastructure by focusing on our core leasing and installment sales business while expanding the loan business. In addition, taking advantage of our expertise in the IT-related equipment leasing business, we developed the resale of used products by establishing C-TRY, a company that operates a refurbishing business to delete data from used PCs and other IT equipment and resell them. We also promoted business with small and medium-sized enterprises, using Lease-N@vi, our Web-based credit authorization system. We also added new value to our core business and established business derivative ventures. These businesses included the development and sales of risk-hedged products, the provision of various IT-based services including Century Net, a Web-based lease management system, and support for customer investment in China and other foreign countries. In addition, we promoted business in new areas such as a loan business including operating loans, discounted commercial notes, factoring and investment in venture companies. As part of the Group strategy, Century Auto Leasing Co., Ltd. (CAL), our consolidated subsidiary and NTT Auto Leasing Co., Ltd., a consolidated subsidiary of Nippon Telegraph and Telephone Corporation merged on 50-50 basis into a new company, Nippon Car Solutions Co., Ltd. (NCS) in October 2005. The CLS Group reinforced and expanded the Group's sales infrastructure by holding one of Japan's major auto leasing companies as a Group company.

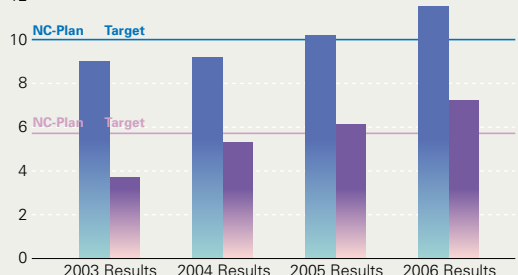
NC-Plan II Achievements

Income Plan

Ordinary Income / Net Income

Billions of yen

12

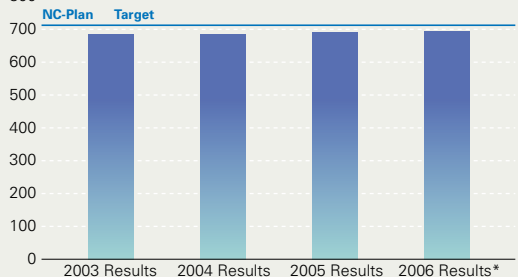


B/S Plan

Operating Assets

Billions of yen

800

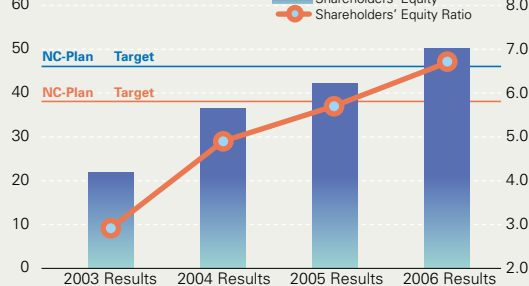


* Operating Assets of Century Auto Leasing Co., Ltd. (currently Nippon Car Solutions Co., Ltd.) are excluded due to the application of the equity method for the company.

Shareholders' Equity / Shareholders' Equity Ratio

Billions of yen

60

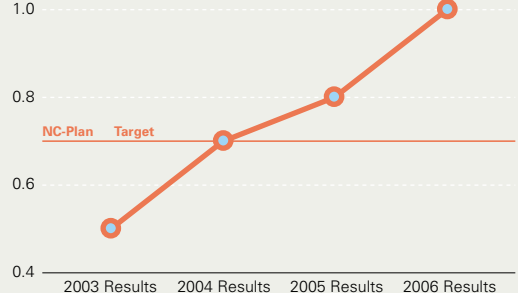


Management Indicator

ROA

%

1.0



Three Basic Goals and Three Reforms for NC-Plan III



Three Basic Themes

1. Expand business deriving from core business

Enhancing and expanding the leasing and installment sales businesses as core business while developing new businesses deriving from the core business

2. Innovating ourselves

Implementing reforms to improve corporate value, such as improvements in financial indicators, governance and quality of sales activities

3. Advancing strategic allocations

Cultivating key businesses as future income producers to strengthen growth potential

Numerical Targets in the Management Plan (consolidated)

		Results (fiscal year ended March 2006)	Targets (fiscal year ending March 2009)
Income Plan	Ordinary Income	¥11.5 billion	Minimum ¥14.0 billion
	Net Income	¥7.2 billion	Minimum ¥8.5 billion
Financial Target	Shareholders' Equity Ratio	6.7%	Minimum 8.0%
Management Efficiency Indicators	Return on Assets*1	1.5%	Minimum 1.7%
	Overhead Ratio*2	49.7%	Maximum 43%

*1 Return on Assets: ordinary income / the average balance of total assets for the term
 *2 Overhead Ratio: (personnel costs + equipment-related costs) / gross profit

By establishing NC-Plan III, the next three-year medium-term plan, CLS actively expands business toward becoming a corporate group that appeals to stakeholders.

Q What goals did you set in NC-Plan III, the next three-year medium-term plan?

A In NC-Plan III, our next three-year medium-term plan, we set three basic management themes—Expand business deriving from core business, Innovate ourselves, and Advancing strategic allocations. With these goals in mind, we are implementing the three reforms—reform of marketing competency, transformation of financial structure, and revitalization of management system to become a corporate group that appeals to all our stakeholders.

In fiscal 2008 ended March 31, 2009, the final year of the next three-year medium-term plan, we intend to achieve ordinary income of ¥14 billion or more and net income of ¥8.5 billion or more on a consolidated basis. We also plan to raise the shareholders' equity ratio from 6.7% in fiscal 2005 to 8.0% or higher and achieve a return on assets (ROA*1) of at least 1.7% and overhead ratio (OHR*2) of no more than 43%.

*1 Return on Assets: ordinary income / the average balance of total assets for the term
 *2 Overhead Ratio: (personnel costs + equipment-related costs) / gross income

Q Could you explain the concrete targets for your three basic points?

A The first point is "Expand business deriving from core business." We continue to pursue this goal originally set in NC-Plan II. We will improve profitability by enhancing and expanding our core business while focusing on developing new businesses deriving from our core business.

The second is "Innovating ourselves." To improve our corporate value, we will not only pursue growth in terms of volume such as revenues and company size but also focus on quality in sales. We will also spotlight improvements in various financial indicators including ROA, OHR, shareholders' equity ratio, and credit ratings, as well as the enhancement of corporate governance, reforms in our risk management system, the quality of our human resources, and the flow of operations.

The third is "Advancing strategic allocations." To ensure continuing business growth, we must develop key businesses to generate future income by intensively allocating management resources to these areas.

In line with these three basic points, we are focused on implementing the three reforms: reform of marketing competency, transformation of financial structure, and revitalization of management system.

Q What are the key issues to address in the reform of marketing competency?

A This reform is intended to improve our sales infrastructure and operating profitability by intensively allocating management resources to strategically important businesses, taking advantage of our strengths. In NC-Plan III, we focus on the four basic goals: strengthening core business, expanding the auto leasing business, developing derivative businesses, and advancing strategic allocations.

Q Could you explain concrete measures for enhancing core business?

A To achieve the goals we set in NC-Plan III, we must develop the sales infrastructure of our core business. We will enhance our sales infrastructure and improve operating profitability by taking full advantage of our core marketing competency in the IT-related equipment business—strong collaborations with major shareholders, IT-related service tools, and CS-based product development capability. Concretely, to develop the sales infrastructure for IT-related equipment business, we will first enhance alliances with manufacturers and sales companies which we developed by offering high value-added proposals and supplementing required functions. Second, we will develop new markets using a variety of channels by promoting collaborations with major



shareholders, consisting of trading companies, banks, and life insurance companies.

Third, we will promote proposal-based marketing activities, using our proprietary IT-related service tools. For instance, we differentiate ourselves from our competitors through the wider use of Lease-N@vi and the promotion of sales using tools such as Century Net and C-BANK. In CS-based product development, we will reinforce our capability to develop new products and service schemes following risk-hedged leases.

By implementing these measures, we will focus on entering rapidly growing and highly profitable markets, including the small and medium-sized companies market, healthcare, nursing and real estate leasing businesses. This is how we will develop our sales infrastructure and ensure steady growth.

Reform of marketing competency **1**

Reinforcing the core business (leasing and installment sales businesses)

Taking advantage of our competitive edges

Expanding sales infrastructure by applying CLS's strengths

- Reinforcing sales infrastructure for IT-related equipment business
- Strengthening business ties with major shareholders
- Promoting marketing activities using IT-related service tools
- Enhancing CS (Customer Satisfaction)-based product development capability

Cultivating Rapidly Growing Markets and Areas

Expanding sales infrastructure by focusing on and cultivating rapidly growing or highly profitable markets and areas

- Small and medium-sized companies market
- Healthcare and nursing markets
- Real estate leases
- Outsourcing products, etc.

Reform of
marketing competency

2

Developing the auto leasing business

Strengthening our partnership with Nippon Car Solutions Co., Ltd., a major auto leasing company, to improve sales infrastructure of both companies and expand consolidated profitability

Reform of
marketing competency

3

Developing derivative businesses

Establishing a new major income source in addition to the core and auto lease businesses

Financing business
Refurbishment business

Reform of
marketing competency

4

Advancing strategic allocations

Cultivating new businesses with significant income growth potential

Overseas business
IT-related service business
M&A
Non-asset business
Investment in venture businesses

Q How do you plan to expand the auto leasing business?

A Nippon Car Solutions Co., Ltd. (NCS) was incorporated in October 2005 through a corporate merger. NCS manages a large fleet of cars as one of the major auto leasing companies in Japan and boasts an extensive customer base, a nationwide sales and maintenance service shop network, plenty of expertise and experience in the individual customer market, and a strong IT-based product development capability. NCS intends to differentiate itself from its competitors by providing versatile car solutions using high value-added services, such as maintenance leases and telematics, in addition to demonstrating the major benefits of car leases in reducing customer costs and paperwork. NCS plans to achieve net sales of ¥90 billion and ordinary income of ¥5.8 billion in fiscal 2008, ended March 31, 2009. CLS strives to increase its consolidated income through synergies in marketing by introducing new customers to NCS and offering joint proposals with NCS.

Q In which areas do you plan to expand derivative businesses?

A CLS has promoted a variety of businesses derived from the leasing and installment sales business. Of these businesses, the loan business, which takes advantage of our sales infrastructure and strengths as a leasing company, and the refurbishment business that we are developing by fully exploiting product value, have high growth potential. In the loan business, we will increase the balance of highly profitable loans by promoting joint projects with major shareholders and responding to customer financing needs reflecting the nature of customer business trends. In addition, we will develop the refurbishment business, focusing on maintaining the value of equipment, a fundamental aspect of the leasing business, and enhancing our capability to appraise the property.

Q Do you have any concrete plans regarding advancing strategic allocations?

A To develop new business areas as future key drivers for generating income, we will intensively allocate management resources into new business areas including: overseas businesses; IT-related services such as Integrated Asset Management Service; non-asset (fee) businesses such as the sales of life and casualty insurance products; M&A and investments in venture businesses.

Q Could you outline your policy for transformation of your financial structure?

A The Bank of Japan ended its five-year-long quantitative monetary easing policy in March 2006 and then raised interest rates from zero in July 2006. Market interest rates, which have been kept at low levels, started to rise. Thus, the trend in Japan's financial environment is changing. Under these conditions, it is increasingly important for a corporation to enhance its funding capacity and its ability to effectively respond to risks. CLS minimizes any increase in funding costs by optimizing its funding structure and enhances its ability to respond to financial risks by strengthening the function of the ALM Committee to advance methods for quantifying and controlling risks and paying greater attention to changes in interest rates. To secure the solid procurement of low-cost funds, we have diversified our direct funding sources, including the liquidation of receivables, the issuance of commercial paper, medium-term notes and straight bonds. We will continue to strengthen our funding capacity and maintain low-cost, secured funding sources.

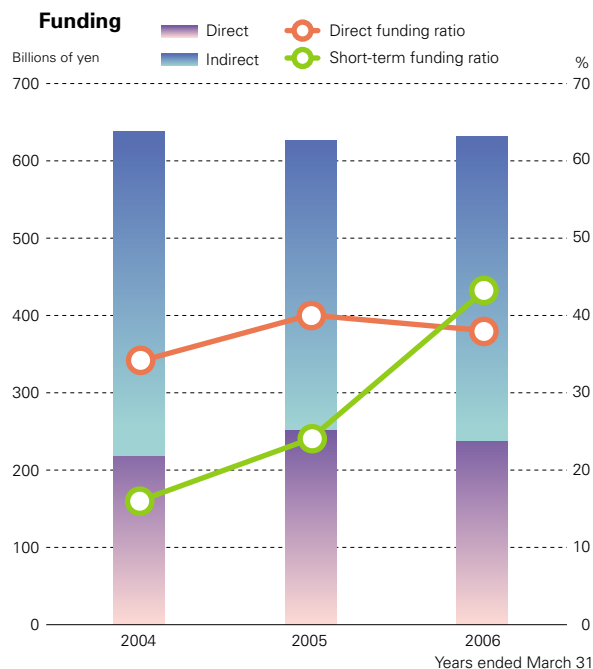
Q How will you promote the revitalization of your management system?

A We are promoting various reforms for reinforcing our management system to enhance our corporate value. For example, we are focusing on enhancing corporate governance by improving internal controls and risk management systems while at the same time raising Group profitability through the collaboration and synergies among Group companies. We are also continuing to promote environmental protection and social contribution activities. To further improve management efficiency, we are striving to boost productivity across the Group by continually seeking to streamline operations. We will emphasize ROA and OHR in the business management through stricter management on cost of credit and appropriate control of selling and general administrative expenses. With regard to strengthening our human resources, we are proactively developing the skills of individual employees and fostering employees with professional expertise by thoroughly applying our new personnel system and enhancing employee education. CLS identifies efforts for addressing environmental concerns as a key issue for its business activities. With this belief, we obtained ISO 14001, an international standard for environmental management systems, in March 2006. In addition, we obtained Japanese Standard ISMS Certification Criteria Ver. 2.0 and International Standard ISO/IEC 27001:2005 certifications to enhance information security.

Transformation of financial structure

Enhancing funding capacity and the ability to effectively respond to risks

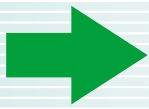
- Establishing a system to ensure low-cost operations
- Enhancing risk management system
- Diversifying funding vehicles



Revitalization of management system

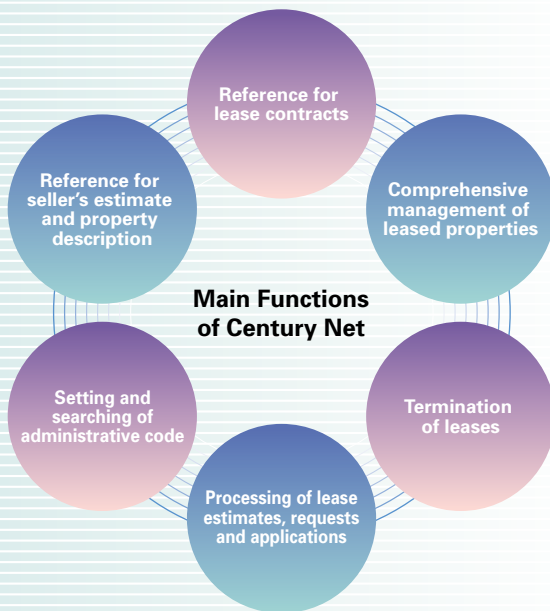
Implementing reforms to enhance management system for greater corporate value

- Increasing consolidated income
- Improving management quality
- Improving operational efficiency
- Developing human resources



Reforms of marketing competency

Reinforcing the Core Business—Differentiation Strategies



Number of Century Net User Companies



Century Net

Century Net (C-Net)—new features and capabilities offer greater benefits

In autumn 2000, we independently developed Century Net (C-Net), which provides a Web-based reference for lease contracts, the production of estimates, and the termination of leases. Customers can use this system to comprehensively manage leases, from the point of introduction through disposal, and can save both money and time in managing their assets.

The main functions of C-Net include viewing functions, and application functions and asset management functions, including consolidated management of asset data by department. Several other functions have been introduced for the first time in the industry, including the ability to set and search for administrative codes, attach estimates and lease descriptions, and enter data of contracts with other companies. We also launched the new Speed EC function, which automatically produces estimates and sends contract documents. This function enables customers to carry out contract-related jobs more quickly and improves sales efficiency. During fiscal 2005, the total number of C-Net member companies steadily increased by 200 from the previous year to 2,700. With nearly all our major customers as registered members of the system, Century Net is broadly recognized and highly regarded. The number of customers using C-Bank, our optional Web-based asset management system, also increased. This system enhances property management functions and consolidates customer management of information on lease contracts with CLS and other companies with information on assets they own.

CS and Product Development Capability

Risk-hedge leases reflecting future customer needs, including a new product: earthquake leases

Typical products reflecting our response to customer requests through CS activities are risk-hedged leases (business model patent pending), which provide customers with added value by hedging risks associated with variable factors that can affect customer business performance.

Weather leases hedge against the adverse effect of extreme weather and are used in such areas as equipment leases for logistics, restaurants, and amusement facilities as well as for computer leases.

In fiscal 2005, we introduced earthquake leases to the market. These leases hedge the risk of incurring loss and damages caused by unexpected earthquakes. These leases have drawn significant attention from customers in industries facing regulatory environments that require earthquake insurance.

Lease-N@vi

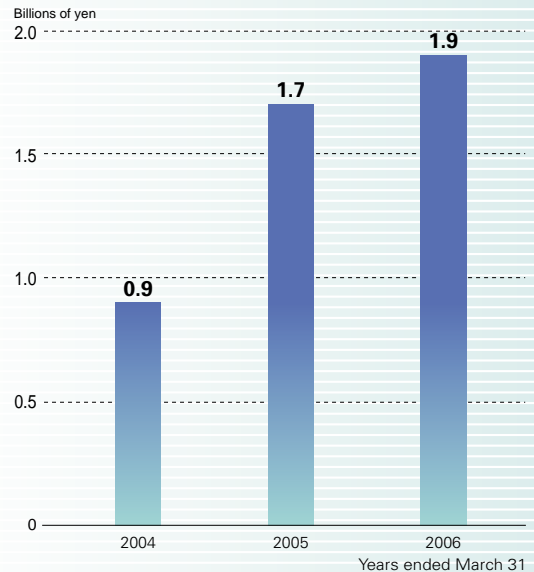
Lease-N@vi, a Web-based credit authorization system that contributes to expanding our customer base of small and medium-sized companies

In 2002, we began operating Lease-N@vi, a Web-based system for providing customers with quick services ranging from credit authorization to contract applications. The use of this system has helped to expand our customer base from traditional large enterprises into small and medium-sized companies that represent more profitable business opportunities. Besides reinforcing our customer base, the system increases the balance of small ticket transactions that we can handle. Moreover, business partners who have access to the system can use it for their pre-financing credit reviews and realize increased revenues. We have recently been exploring new business opportunities using Lease-N@vi as part of our efforts to expand the sales of machine tools that have substantial value and to develop healthcare-related business.

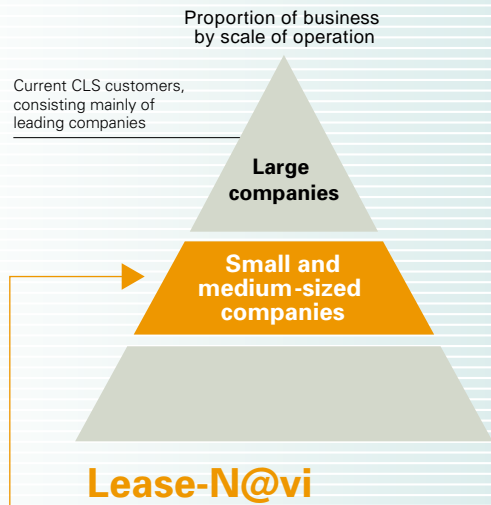
In fiscal year ending March 2006, the value of new contracts rose 8% to ¥1.9 billion while the number of inquiries increased 6% to 9,000. In addition, we often receive inquiries for large-scale projects directly from manufacturers and dealers who use Lease-N@vi. Thus, the Group performed well in concluding new contracts.

Lease-N@vi also substantially supports the development of new markets. A function for integrating the management of personal credit information of all Group companies provides a solid platform for developing the market of small and medium-sized companies. A wealth of expertise in credit authorization for small and medium-sized companies paves the way for acquiring outstanding new customers. The system also functions as a tool for identifying and developing new manufacturers and dealers and contributes to strengthen sales capability across the Group.

Value of New Contracts via Lease-N@vi

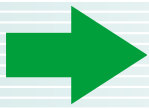


Target Customers for Lease-N@vi



Expansion of customer bases comprising small and medium-sized companies

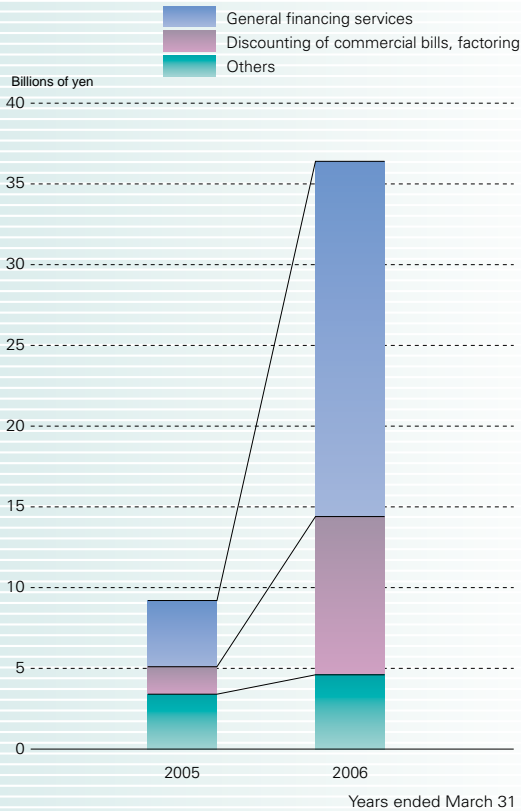
- Increase in channels
- Alliance
- More variety of products
- Enhancement of marketing competency



Reforms of marketing competency

Developing Derivative Businesses

Financial Business Performance

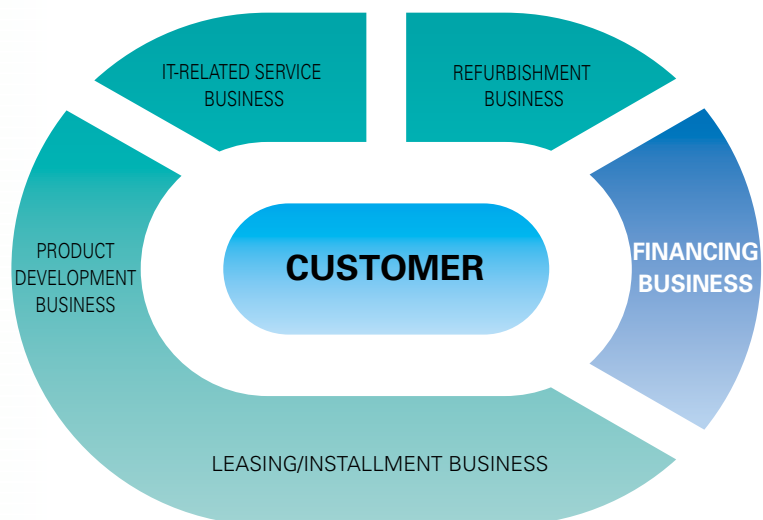


Financing Business

Building on our strong performance toward achieving further growth in the financing business

We have enhanced and expanded our financing business. We not only developed general financing services for corporate customers but have also focused on real estate securitization projects, discounting of commercial bills, factoring and syndicated loan projects. As a result, total financing value for fiscal 2005 tripled from the previous fiscal year to ¥36.4 billion, up ¥27.2 billion.

In fiscal 2006, to reinforce our financing business, with the restructuring the Financing Team into the Financing Group, we intend to increase the balance of prime assets through a promotion of projects in partnership with major shareholders and response to financing needs which correspond with the nature of our customers' businesses.



Expanding business opportunities by providing customers with diverse business services

C-TRY

Growing the C-TRY business to refurbish used PCs in response to the needs for environmental protection and data deletion

In May 2004, we launched the refurbishment business to collect out-of-lease PCs and other IT-related equipment, delete stored data, and reuse the equipment. In June 2005, we established a company, C-TRY, to handle this business. We collect PCs from expired customer leases from across Japan, and then delete all stored data, clean the PCs and rigorously evaluate the specifications and appearance of each unit and auction off the PCs to used office equipment traders and other buyers.

Since we are competitive in the IT-related equipment lease business and have a broad customer base of government and public organizations, and large companies, we have many opportunities to obtain a large volume of standardized, high-quality, high-specification and comparably managed second-hand PCs from these organizations upon termination of their leases. This provides us with a significant competitive edge in the used PC trading market. We handle all work related to receiving PCs, such as verifying functionality and maintenance, including the deletion of data to ensure the security of information. Consequently, products recycled under the Century brand are highly regarded for their reliability.

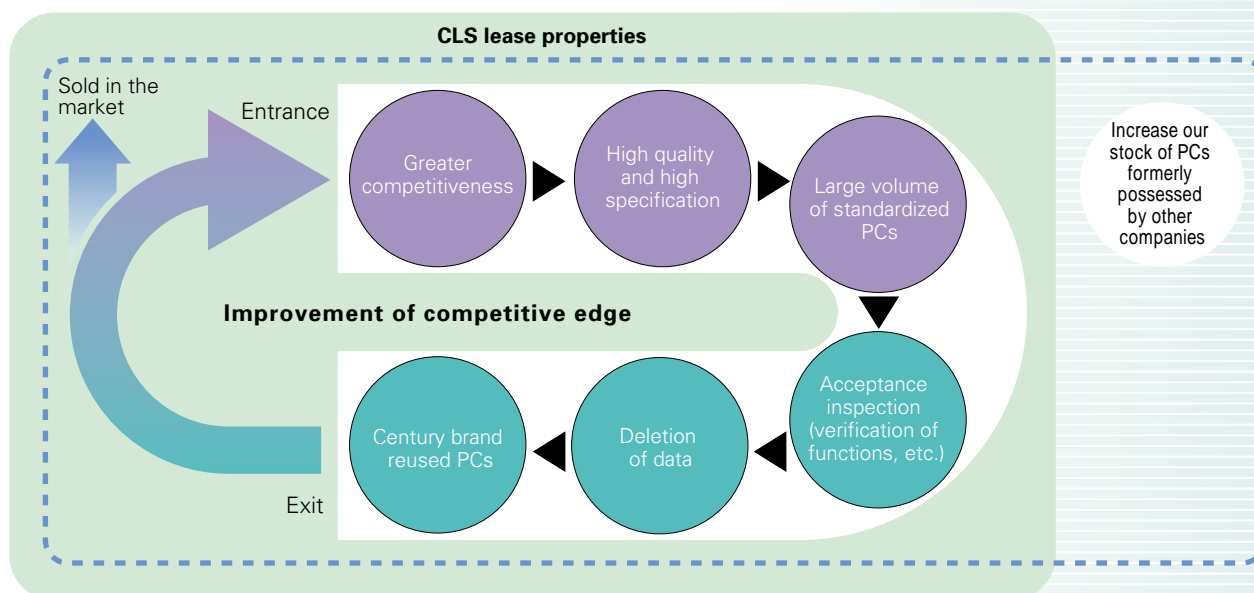
Under circumstances affected by the introduction of stricter requirements under the Waste Disposal and Public Cleaning Law and the Personal Information

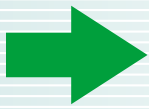
Protection Law and increasing incidents involving data leakage, it is more difficult to dispose of customers' PCs and delete stored data.

In response to these data deletion and environmental issues, C-TRY obtained Information Security Management Standard ISO 27001 in addition to Environmental Management Standard ISO 14001. Very few of our competitors in Japan have obtained ISO 27001. With this certification, the operations of C-TRY are increasingly reliable.

As a result, we sold approximately 27,000 used PCs in the fiscal year ending March 2006, an increase of 13,000 units compared with the previous fiscal year, while net sales of used PCs amounted to about ¥400 million, up 77% compared with the previous fiscal year. In the fiscal year ending March 2007, we expect to sell at least 35,000 used PCs.

One-stop Service for PC Use from Entrance to Exit





Reforms of marketing competency

Advancing Strategic Allocations

Integrated Asset Management Service

Integrated Asset Management Service for sharing information with various players and responding to internal control needs

As one action for achieving the NC-Plan III goal for advancing strategic allocations, we introduced Integrated Asset Management Service for the IT-related service business.

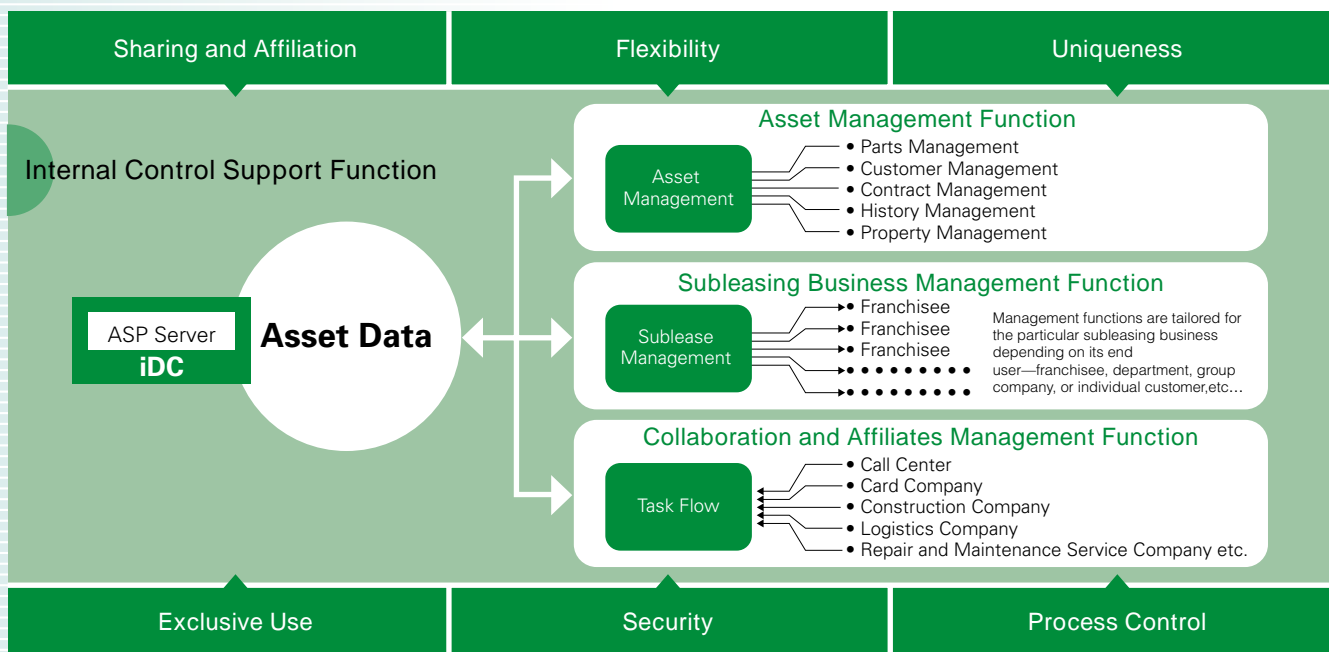
The development of this system is being driven by the requirement for companies to introduce stricter internal control and risk management systems under the enforcement of the amended Corporation Law, a Japanese-version of the Sarbanes-Oxley Act, and Personal Information Protection Law. These stricter regulations strengthen the need for companies to more carefully manage the assets they own, particularly IT-related assets. With regard to assets, there is broad agreement on sharing information and processes among various players, including suppliers, logistics, and maintenance and leasing companies during the product lifecycle. Integrated Asset Management Service is an asset management system that responds to these needs by supporting customers in the optimum allocation and efficient use of assets by integrating asset management.

This system performs three basic functions: asset holding process management, sublease process management and collaboration/partnership process management. Using this system enables the sharing of information over the Web, which has previously been difficult under LAN-type systems, and reducing total cost of ownership (TCO) in management through the use of application service

providers (ASP).

In asset holding process management, the system integrates the management of contracts, documents and history of all types of assets held by the company, including those owned by the company and held under lease. The system can also be used for variable assets. In addition, it facilitates optimum asset allocation through a function for managing the history of asset transfers. Sublease process management provides a function for managing a customer's sublease business and leases with other Group companies. We can also support customers in managing rental business projects and reducing costs for the construction and operation of these systems by providing outsourcing solutions.

Collaboration / partnership process management provides a process flow function for enabling the sharing and joint management of work processes and data for collaborations and partnerships with suppliers and partners related to assets. Thus, the system supports the sharing of information and accelerating processes. With these functions, Integrated Asset Management Service is expected to become widely used in areas such as the comprehensive management of IT-related assets, total asset management for sublease businesses and facilities managed by local governments as well as total management of lease contracts.



Overseas Business

Doubling the value of new contracts in customers' overseas business support by assisting them enter overseas markets with our unique approaches

Since the establishment of the China Business Support Department in fiscal 2002, CLS has provided support to customers who invest in production facilities in China and other foreign countries by arranging overseas installment trades that comply with the applicable laws and regulations of each country. Foreign corporations doing business in China require expertise in accounting, taxation, and distribution, as well as the real-time collection of information to ensure effective and efficient investment in equipment and facilities.

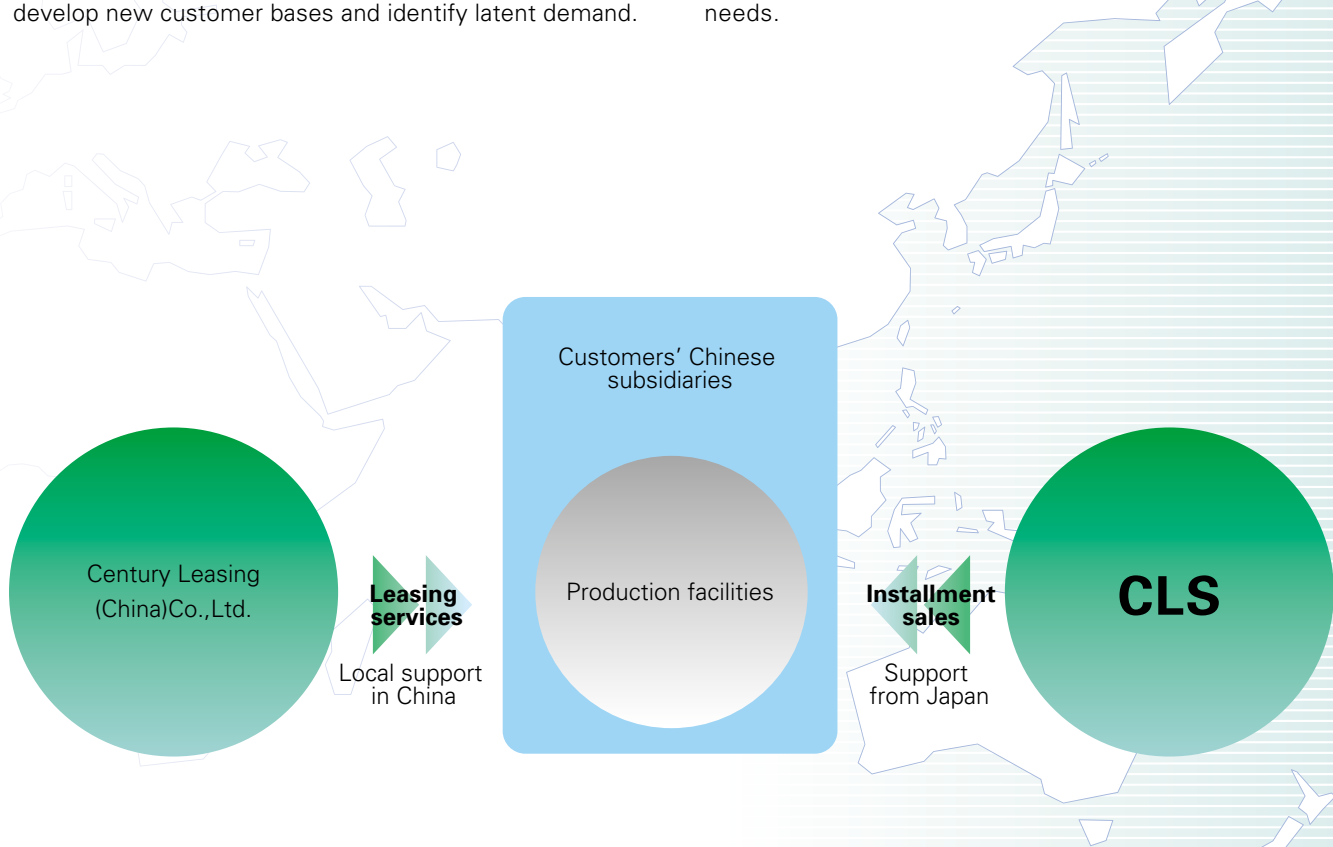
CLS provides a total solution for trouble-free business operations through constant monitoring of the situation in China and gathering up-to-date information in collaboration with the ITOCHU Group, who have expertise regarding business in China, and Mizuho Corporate Bank, Ltd., both of which are our major shareholders.

Our unique methods, based on their outstanding efficiency and ease of use, have been widely acclaimed by our customers who operate overseas. As a result, we have received an increasing number of repeat orders from existing customers.

In fiscal 2005, we implemented marketing activities including the long-term dispatch of staff to Shanghai to develop new customer bases and identify latent demand.

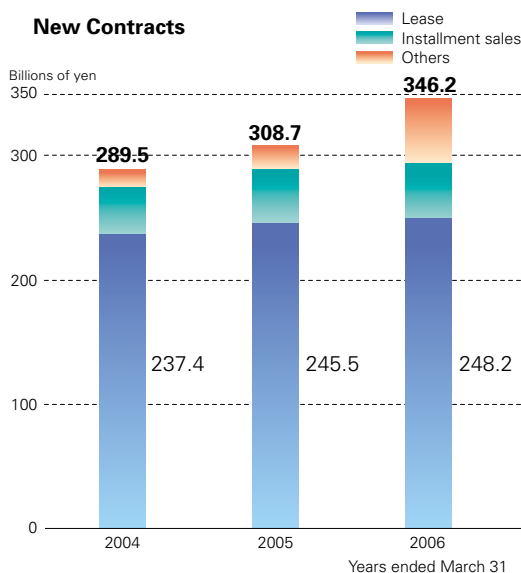
Furthermore, we responded to customer needs by offering both US dollar-denominated and yen-denominated plans. We also concluded large-scale deals and promoted business in countries other than China. As a result, the value of new contracts rose 91% compared with the previous fiscal year to ¥3.5 billion.

In fiscal 2006, the department is expected to be renamed the Overseas Business Department. We are developing a plan for supporting our customers enter the Southeast Asian market. In autumn 2006, we established Century Leasing (China) Co., Ltd., our Chinese leasing subsidiary, in Shanghai to expand and enhance financial services in the Chinese market. The company began operations at the end of October. It is wholly owned by foreign ventures, CLS (80%) and Itochu (China) Holding Co., Ltd., a wholly-owned ITOCHU subsidiary (20%). The new company will take full advantage of the expertise and networks of Itochu (China) Holding Co., Ltd., which is licensed in China as a regional headquarters of a transnational company, and will operate a yuan-based leasing business primarily for Japanese companies in China. With this new company, we offer a variety of approaches for meeting a broader range of customer needs.

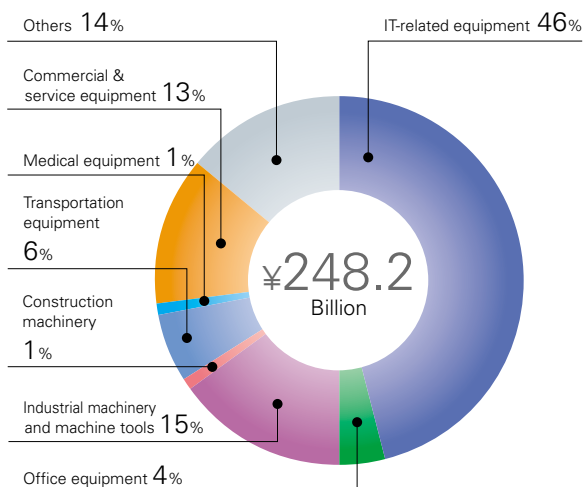


REVIEW OF OPERATIONS

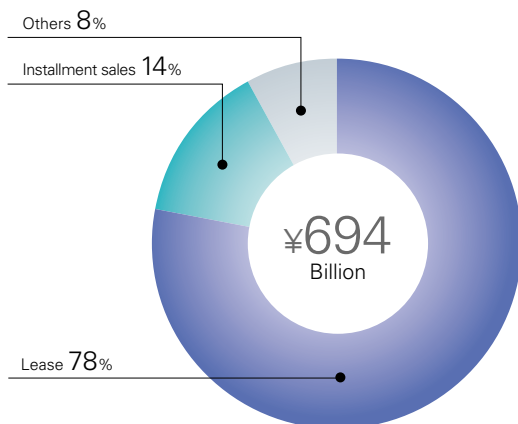
New Contracts



Composition of New Lease Contracts (Fiscal 2005)



Composition of Operating Assets (Fiscal 2005)



CLS's business in fiscal 2005

The Japanese economy in fiscal 2005 ending March 31, 2006 accelerated its recovery due to an improvement in the labor and household income environment, a rebound in personal spending, growth of corporate profits, and an increase in capital spending. We are, however, facing significant change in the financial environment, given the Bank of Japan has ended its five-year quantitative monetary easing policy, and market interest rates, which had been low for years, are finally beginning to rise.

In the leasing business, leasing demand continued to grow thanks to an increase in corporate capital investment. Capital investment financed by leasing for the term under review showed solid growth as it had in the previous fiscal year. Under these circumstances, we revised numerical targets for the final year of our three-year medium-term plan, NC-Plan II, based on the results of the previous year, toward achieving the basic management goals of the plan—reform of marketing competency, Transformation of financial structure, and revitalization of management system.

As a result, the value of new contracts for leases, installment sales and others in the term under review increased to ¥346.2 billion, up 12.1% compared with the previous year. While the balance of operating assets edged up to ¥694.3 billion, up 0.4% compared with the previous year, the increase did not reflect the ¥50.1 billion in assets (March 31, 2005) owned by Century Auto Leasing Co., Ltd. (currently Nippon Car Solutions Co., Ltd.) which would have boosted the percentage gain to 9%. Total revenue declined to ¥307.0 billion, down 8.0% compared with the previous fiscal year primarily attributable to the exclusion of Century Auto Leasing Co., Ltd. (currently Nippon Car Solutions Co., Ltd.) from consolidated companies. Ordinary income rose 12.4% to ¥11.5 billion as a result of investment profit associated with the application of the equity method to Nippon Car Solutions Co., Ltd. as well as a decline in funding costs. Net income increased 17.0% to ¥7.2 billion, marking three consecutive years of record-setting performance.

Leasing Business

In fiscal 2005, capital investment financed by leasing in Japan was ¥7.1 trillion, up 4.3% compared with the previous year. By type of equipment, despite a decline in IT-related equipment (down 0.5% compared with the previous year), the leasing business recorded two consecutive years of solid growth, including machine tools (up 19.2%), medical equipment (up 12.5%), and office equipment (up 9.2%).

In our leasing business, leases of industrial equipment and machine tools and real estate leases grew. The value of new lease contracts increased to ¥248.2 billion, up 1.1% compared

with the previous year, while the balance of leased assets declined to ¥541.8 billion, down 4.5%. Total revenue declined to ¥255.1 billion, down 5.4%. The slight increase in new lease contracts and declines in the balance of leased assets and total revenue are attributable to the exclusion of Century Auto Leasing Co., Ltd. (currently Nippon Car Solutions Co., Ltd.) from consolidated companies.

Installment Sales Business

In our installment sales business, the value of new contracts rose to ¥45.7 billion, up 4.1%. The balance of installment sales receivables, after deducting deferred profit on installment sales, edged downward to ¥93.8 billion, down 0.8% compared with the previous year. Total revenue declined to ¥49.2 billion, down 20.7%, mainly due to the collection of significant installment sales receivables in the previous fiscal year.

Other Businesses

In other businesses, the balance of assets increased to ¥58.5 billion, up 96.8% and total revenue rose to ¥2.6 billion, up 32.1% compared with the previous year, mainly attributable to a substantial increase in the value of contracts for operating loans.

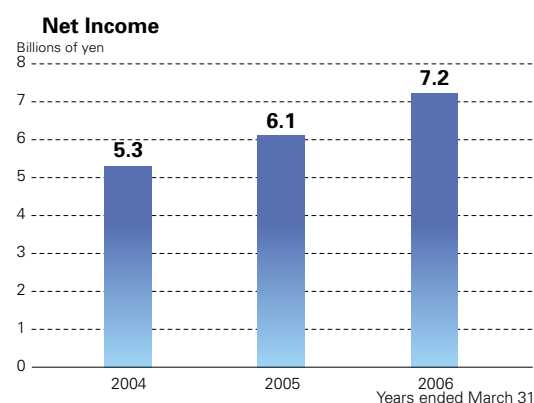
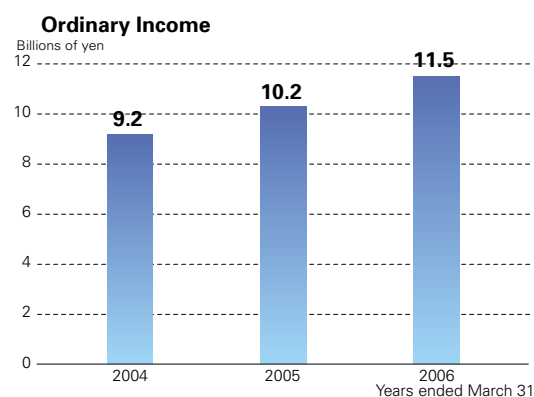
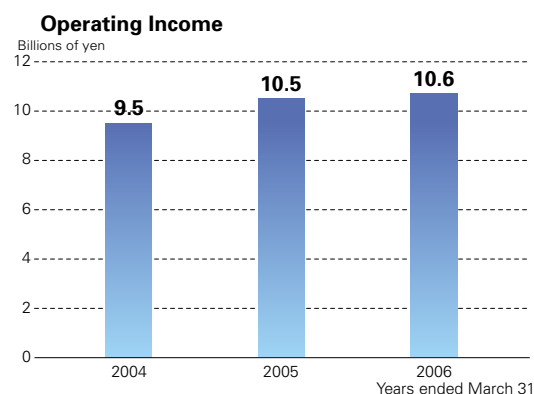
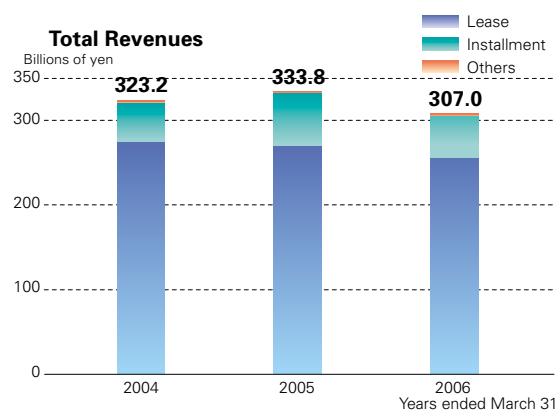
Outlook for fiscal 2006

The Japanese economy is expected to continue its expansion supported by strong domestic demand thanks to recovery of corporate performance across a broad range of industries along with robust personal spending and improvement in the financial positions of households benefiting from strong corporate performance. Attention must be paid, however, to the possible impact of sustained high oil prices and the potential influence on the Japanese and overseas economies by the expected higher interest rates subsequent to the end of quantitative monetary easing policy by the Bank of Japan.

Consequently, based on the basic policies stated in the new three-year medium-term plan, NC-Plan III, Century Leasing System, Inc. and its consolidated subsidiaries are engaged in steadily and expeditiously implementing key measures set forth in the plan.

In the fiscal year ending March 2007, we expect to achieve revenues of ¥300 billion, down 2.3% compared with the previous fiscal year, ordinary income of ¥11.6 billion, up 0.7%, and net income of ¥7.5 billion, up 4.1%.

With regard to cash dividends, to repay the continued support of our shareholders, we plan to pay ¥20 per common share (¥10 in interim dividends and ¥10 in year-end dividends) based on our profit distribution policy.



BOARD OF DIRECTORS AND AUDITORS/ CORPORATE GOVERNANCE

Board of Directors and Auditors



Deputy President
Hirokuni Imai

President & CEO
Mitsuaki Fukuda

Chairman
Mitsuo Hamamoto

Chairman, Representative Director

Mitsuo Hamamoto

President & CEO, Representative Director

Mitsuaki Fukuda

Deputy President, Representative Director

Hirokuni Imai

Managing Directors

Takashi Asakura

Akihiko Nishimura

Takaaki Tsuji

Michio Ito

Seigo Saito

Directors

Hiroshi Fukushima

Hidemi Tone

Masao Mizuno

Masuo Suzuki

Yuji Ishino

Mitsutaka Ohshima

Tsuneichiro Masaki

Eiji Hara

Standing Corporate Auditor

Yasuo Shibuichi

Corporate Auditors

Takashi Minagawa

Takeshi Okumura

Fuminori Anai

Corporate Governance

To establish a sound and transparent corporate culture, we will enhance corporate governance.

At CLS, we recognize that maximum corporate value can only be achieved by effectively implementing corporate governance. To this end, we conscientiously expedite appropriate corporate decision-making to respond to changes in the business environment and have established a management system to ensure sound, transparent business practices.

In April 2006, we established our basic policy for an internal control system and built a system for effectively executing operations. We have also established a system for timely and appropriate decision making on management issues at board meetings, attended by the 16 directors, and management meetings, consisting of executive officers appointed by the representative officer and president. We then implement these decisions in each of our organizations. The Board of Corporate Auditors consists of four corporate auditors, one of which is a standing corporate auditor. By holding regular meetings and maintaining independence in its auditing activities, the Board of Corporate Auditors strives to fulfill its responsibility for conducting fair audits of compliance and the appropriateness of company operations, including the execution of operations by directors. While the independence of auditing activities performed by the independent auditor is observed by the Board of Corporate Auditors on the auditing standard formulated, corporate auditors closely communicate with the independent auditor through regular meetings and other occasions and actively exchange views and information with them to ensure the efficiency of auditing activities. With regard to internal audits, the Inspection Office established under the direct supervision of the president, reviews the status of the company's business operations and investigates and verifies whether all operations are being carried out in a fair and reasonable manner in compliance with laws, regulations, the company's articles of incorporation and company rules, and whether the systems, organizations and rules of the company are reasonable and appropriate. These activities are aimed for protecting corporate assets and improving operational efficiency, and results are reported to the president and at the management meeting. As for compliance, we strive to establish a management system that ensures all employees and managers operate under the principle of fairness and the highest ethical standards to earn the trust of society. The chief compliance officer, nominated by the president together with the Legal & Compliance Department staff promotes the implementation of compliance including education

and training based on the Compliance Program. All employees and managers strive to thoroughly understand the spirit of compliance by mastering the Compliance Manual as our code of business conduct to establish a fair and transparent corporate culture. In addition, we established several contacts within and outside the company with whom employees can consult on compliance issues and to whom they can provide information on actions or practices which may violate laws or our own rules. Consequently, we operate a whistle-blowing system that strictly protects the rights and interests of informers. We also established Regulations for Management of Personal Information as part of the Compliance Program based on the Personal Information Protection Law. Through this effort, we reinforced our system for managing personal information.

We strived to improve the operation of our Information Security Management System (ISMS) introduced in the previous year. CLS acquired ISO 27001 certification in March 2006, an international standard for Information Security Management System (ISMS), upon the internationalization of British standard BS7799-2:2002 which we had acquired in the previous year. We also acquired ISO 14001, an international standard for environmental management system, in the same month.

FINANCIAL SECTION

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Analysis of Financial Condition and Results of Operations

Forward-looking statements in this section are based on the judgment of Century Leasing System, Inc. and its consolidated subsidiaries at the time we submitted our Financial Report (June 23, 2006).

1. Analysis of Financial Condition

(1) Operating Assets

(a) Value of new contracts

For the fiscal year under review, the value of new contracts in all segments increased 37,504 million or 12.1% to ¥346,219 million compared with the end of the previous year. The value of new contracts in leasing operations rose to ¥248,279 million or 1.1% to ¥2,743 million compared with the previous fiscal year. In installment sales operations, the value of new contracts increased ¥1,799 million or 4.1% to ¥45,712 million compared with the previous fiscal year. The value of contracts for other businesses increased ¥32,960 million or 171.1% to ¥52,226 million. As a result, the total value of new contracts rose.

(b) Balance of operating assets

The balance of operating assets at the end of the term under review increased ¥2,463 million or 0.4% to ¥694,338 million compared with the previous fiscal year. The balance of operating assets for leasing operations declined ¥25,581 million or 4.5% to ¥541,863 million compared with the previous fiscal year-end.

The balance of operating assets for installment sales operations dropped ¥759 million or 0.8% to ¥93,897 million compared with the previous fiscal year. The balance of operating assets for other businesses increased ¥28,805 million or 96.8% to ¥58,576 million compared with the previous fiscal year-end due mainly to an increase in new contracts such as operating loans.

Century Auto Leasing Co., Ltd. (currently Nippon Car Solutions, Co., Ltd.) was excluded from the consolidated companies as a result of its merger on October 1, 2005. Because of this exclusion, the value of new contracts dropped by ¥10,210 million compared with the previous year and the balance of operating assets declined by ¥50,107 million compared with the previous fiscal year-end.

(2) Investments in Securities

Investments in securities rose ¥8,627 million or 56.1% to ¥24,009 million compared with the previous fiscal year-end. This

improvement is attributable to a ¥3,402 million increase in the market value of securities in the wake of the stock market recovery and a ¥6,362 million increase in the value of stock of affiliates from the addition of Nippon Car Solutions Co., Ltd. to company affiliates.

2. Analysis of Funding and Liquidity

(1) Funding Policy

We are reducing funding costs and enhancing funding security while flexibly responding to changes in financial markets. To deal with liquidity risks, we diversify our funding sources and financing methods. In addition, we implement strict asset and liability management (ALM) to minimize the risk of changing interest rates.

In the term under review, we obtained credit ratings from Rating and Investment Information, Inc. (R&I) in addition to existing ratings from the Japan Credit Rating Agency, Ltd. (JCR) (see the table below). The maximum outstanding amount of commercial paper was raised from ¥180 billion to ¥250 billion.

Credit Rating Agency	Japan Credit Rating Agency (JCR)	Rating and Investment Information, Inc. (R&I)
Long-term	(Long-term Senior Debt) Rating: A- Outlook: Stable	(Issuer Rating) Rating: A- Outlook: Stable
	(Preliminary Rating for Bonds Registered for Issuance) Rating: A- Expected Issue Amount: ¥150 billion	(Preliminary Rating for Bonds Registered for Issuance) Rating: A- Expected Issue Amount: ¥150 billion
	(Euro Medium-term Note Program) Rating: A- Maximum Outstanding Amount: Equivalent of US\$1 billion	(Euro Medium-term Note Program) Rating: A- Maximum Outstanding Amount: Equivalent of US\$1 billion
Short-term	(Commercial Paper) Rating: J-1 Maximum Outstanding Amount: ¥250 billion	(Commercial Paper) Rating: a-1 Maximum Outstanding Amount: ¥250 billion



(2) Direct and Indirect Funding

We procure funds directly from capital markets or indirectly from banks to finance purchase of leased and installment sales assets and make operating loans.

In the term under review, our indirect funding increased ¥20,183 million to ¥394,392 million compared with the previous fiscal year-end due primarily to an increase in short-term borrowings. Our direct funding decreased ¥14,773 million to ¥236,770 million as a result of a considerable decrease in balance of funds from the liquidation of receivables, despite an increase in the balance of commercial paper and Euro Medium-term Notes and the initial issuance of straight corporate bonds.

As a result, the direct funding ratio at the end of the term under review dropped 2.7 points compared with the previous fiscal year to 37.5%. During the term under review, we actively procured short-term funds both in direct and indirect funding. Consequently, short-term funding ratio rose 19.0 points compared with the previous year-end to 42.9% up.

(3) Securing Liquidity

To secure sufficient liquidity, we have secured overdraft and commitment line facilities with 39 financial institutions. Our total committed credit lines increased to ¥200,250 million at the end of the term under review, up ¥83,750 million compared with the previous fiscal year-end. For overdraft and commitment line facilities, a total of ¥120,000 million was available at the end of the term under review.

3. Analysis of Results of Operations

(1) Revenues

Revenues declined to ¥307,057 million, down ¥26,772 million, or 8.0% compared with the previous fiscal year. Operating revenues from leasing operations dropped by ¥14,552 million compared with the previous fiscal year due mainly to the exclusion of Century Auto Leasing Co., Ltd. (currently Nippon Car Solutions, Co., Ltd.) from consolidated companies and the impact of significant asset disposal in the previous fiscal year. Revenues from installment sales operations dropped by ¥12,875 million compared with the previous fiscal year, affected by a large amount of terminated and cancelled contracts during the previous fiscal year. Revenues from

other businesses rose by ¥655 million compared with the previous fiscal year due primarily to a steady increase in operating loans.

(2) Operating Income

While revenues dropped by ¥26,772 million compared with the previous fiscal year, costs of sales declined by ¥25,707 million and selling, general and administrative expenses (SG&A) dropped by ¥1,168 million. As a result, operating income rose by ¥103 million or 1.0% to ¥10,663 million.

(3) Ordinary Income

Non-operating income rose by ¥911 million due to investment income by applying the equity method to Nippon Car Solutions, Co., Ltd. Non-operating expenses dropped by ¥252 million primarily due to a decrease in interest expenses. As a result, ordinary income in the term under review amounted to ¥11,524 million up ¥1,267 million or 12.4% compared with the previous fiscal year.

(4) Net Income

Extraordinary income in the term under review dropped by ¥494 million, affected by significant gains on the sales of marketable securities in the previous fiscal year. Extraordinary loss declined by ¥127 million. As a result, net income before income taxes was ¥11,509 million, down ¥900 million compared with the previous fiscal year. Net income in the term under review amounted to ¥7,202 million, up ¥1,043 million or 17.0% compared with the previous fiscal year.

Net income per share rose to ¥137.21, up ¥19.85 compared with the previous fiscal year. Return on equity was 15.6%, the same as the previous fiscal year. Return on assets was 0.8%, the same as the previous fiscal year.

4. Cash Flows

(1) Net Cash Used in Operating Activities

Net cash used in operating activities in the term under review amounted to ¥57,094 million while net cash of ¥11,648 million was provided in the previous fiscal year. The main factors for this change were a considerable increase in the value of new contracts in operating loans and installment sales, a decrease in revenue from installment sales receivables compared with the previous

fiscal year due to large amount of terminations of existing contracts and a decline in the balance of notes and accounts payable.

(2) Net Cash Provided by Investing Activities

Net cash provided by investing activities in the term under review totaled ¥18,569 million compared to ¥611 million in the previous fiscal year. The main factors for the change were a ¥19,703 increase in collection of loans made to affiliates, a ¥506 million increase in revenue from the sales and redemption of marketable securities and a ¥2,008 million increase in payments for the acquisition of marketable securities.

(3) Net Cash Provided by Financing Activities

Net cash provided by financing activities in the term under review amounted to ¥36,687 million while net cash of ¥13,910 million was used in the previous fiscal year. The main factors for this change were an increase in funding amount due to an increase in the value of new contracts for operating assets. To efficiently use funds, we made an initial issuance of straight corporate bonds and increased the outstanding value of commercial paper by raising the maximum issuance limit in direct funding while actively raising short-term funds in indirect funding. We reduced funding through liquidation of receivables.

As a result, in direct funding, net cash of ¥14,773 million was used against ¥34,228 million provided in the previous fiscal year. In indirect funding, net cash of ¥52,424 was provided compared to ¥46,859 million in the previous fiscal year.

As a result, cash and cash equivalents at the end of the term under review amounted to ¥5,563 million, down ¥2,187 million from the figures at the end of the previous fiscal year. revenue from the sales and redemption of marketable securities and a ¥2,008 million increase in payments for the acquisition of marketable securities.

Five-year Financial Summary

Century Leasing System, Inc. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen (except per share amounts)					Thousands of U.S. dollars (except per share amounts)
	2006	2005	2004	2003	2002	2006
For the year						
Total revenues	¥307,057	¥333,830	¥323,290	¥326,751	¥307,411	\$2,624,419
Lease	255,124	269,676	274,133	264,102	249,545	2,180,547
Installment sales	49,238	62,114	46,441	60,869	55,472	420,838
Others	2,695	2,040	2,716	1,780	2,394	23,034
Interest expenses	4,576	5,907	7,140	8,628	8,773	39,111
Selling, general and administrative expenses	10,555	11,724	11,956	12,204	12,909	90,214
Operating income	10,663	10,559	9,524	9,421	6,931	91,136
Income (loss) before income taxes and minority interests	11,509	10,608	9,306	7,027	6,719	98,366
Net income (loss)	7,202	6,158	5,353	3,752	3,768	61,555
At year-end						
Operating assets	694,338	691,874	683,797	684,228	704,453	5,934,513
Total assets	750,125	745,934	742,344	765,145	808,567	6,411,325
Shareholders' equity	50,308	42,197	36,698	21,812	18,615	429,983
			Yen			U.S. dollars
Per share data						
Net income per share	137.21	117.36	112.42	89.07	91.35	1.17
Dividends per share	20.0	17.5	15.0	10.0	5.0	0.17
Shareholders' equity per share	964.17	808.74	703.72	517.77	441.88	8.24
Ratios						
Shareholders' equity ratio	6.7%	5.7%	4.9%	—	—	
Return on assets*1	1.5%	1.4%	1.2%	—	—	
Return on equity	15.6%	15.6%	18.3%	—	—	
OHR	49.7%	52.6%	54.2%	—	—	
Other data (at year-end)						
Number of shares of common stock outstanding (thousands)	52,126	52,126	52,126	42,126	42,126	
Number of employees	454	650	664	661	641	

Yen amounts have been translated into U.S. dollars at the rate of ¥117 = US\$1.00, the approximate rate of exchange in effect on March 31, 2006, solely for the convenience of readers.

*1 Return on assets: ordinary income / the average balance of total assets for the term.

Consolidated Balance Sheets

Century Leasing System, Inc. and Consolidated Subsidiaries
March 31, 2006 and 2005

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current assets:			
Cash and cash equivalents	¥ 5,563	¥ 7,751	\$ 47,546
Accounts receivable (Notes 4 and 11):			
Installment sales	99,794	100,110	852,940
Loans	55,722	26,573	476,256
Leases	10,663	11,239	91,137
Other	172	331	1,470
Allowance for doubtful accounts	(355)	(469)	(3,034)
Inventories	7	–	60
Deferred tax assets (Note 6)	677	613	5,786
Other	3,890	4,641	33,249
Total current assets	176,133	150,789	1,505,410
Investments and other assets:			
Investments in securities (Notes 3 and 4):			
Unconsolidated subsidiaries and affiliates	6,440	145	55,043
Other securities	17,569	15,237	150,162
Long-term loans and other assets	6,087	8,897	52,026
Deferred tax assets (Note 6)	1	150	9
Allowance for doubtful accounts	(197)	(186)	(1,684)
Total investments and other assets	29,900	24,243	255,556
Property and equipment, at cost less accumulated depreciation:			
Leased assets	451,712	475,238	3,860,786
Own assets in use	1,007	1,073	8,607
Property and equipment, net	452,719	476,311	3,869,393
Intangible assets:			
Computer programs leased to customers	90,456	92,426	773,128
Other	917	2,165	7,838
Total intangible assets	91,373	94,591	780,966
Total assets	¥750,125	¥745,934	\$6,411,325



Liabilities, minority interests, and shareholders' equity	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current liabilities:			
Short-term borrowings (Note 4)	¥258,050	¥137,716	\$2,205,556
Current portion of long-term debt (Note 4)	145,530	197,245	1,243,846
Notes and accounts payable – trade (Note 11)	39,410	51,609	336,838
Accrued income taxes	4,648	1,927	39,726
Advances received from customers	3,384	2,602	28,923
Deferred profit on installment sales	5,896	5,453	50,393
Other (Note 11)	5,490	7,332	46,923
Total current liabilities	462,408	403,884	3,952,205
Long-term liabilities:			
Long-term debt (Note 4)	227,582	290,791	1,945,145
Retirement benefits (Notes 2.m and 7)	984	1,006	8,410
Guarantee deposits from customers (Note 11)	7,801	6,900	66,675
Deferred tax liabilities (Note 6)	370	14	3,162
Other	672	1,142	5,745
Total long-term liabilities	237,409	299,853	2,029,137
Total liabilities	699,817	703,737	5,981,342
Minority interests	-	-	-
Contingent liabilities (Note 9)			
Shareholders' equity (Notes 10 and 13):			
Common stock without par value:			
Authorized: 168,000,000 shares			
Issued: 52,126,000 shares in 2006 and 2005	11,867	11,867	101,427
Additional paid-in capital	5,538	5,538	47,333
Retained earnings	27,518	21,361	235,197
Net unrealized gain on available-for-sale securities	5,385	3,431	46,026
Treasury stock: 151 shares in 2006 and 65 shares in 2005	(0)	(0)	(0)
Total shareholders' equity	50,308	42,197	429,983
Total liabilities, minority interests, and shareholders' equity	¥750,125	¥745,934	\$6,411,325

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Century Leasing System, Inc. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Number of shares		Millions of yen		Thousands of U.S. dollars (Note 1)
	Thousands	2005	2006	2005	2006
Common stock					
Balance at beginning of year	52,126	52,126	¥11,867	¥11,867	\$101,427
Balance at end of year	52,126	52,126	11,867	11,867	101,427
Additional paid-in capital					
Balance at beginning of year			5,538	5,538	47,333
Balance at end of year			5,538	5,538	47,333
Retained earnings					
Balance at beginning of year			21,361	16,131	182,573
Net income for year			7,202	6,158	61,555
Increase due to affiliates newly applied the equity method			1,346	–	11,504
Decrease due to exclusion from affiliates applied the equity method			9	–	77
Cash dividends			(964)	(912)	(8,239)
Bonuses to directors			(41)	(16)	(350)
Increase due to newly consolidated subsidiaries			(14)	–	(120)
Decrease due to exclusion of consolidated subsidiaries			(1,381)	–	(11,803)
Balance at end of year			27,518	21,361	235,197
Net unrealized gain on available-for-sale securities					
Balance at beginning of year			3,431	3,162	29,325
Net change during year			1,954	269	16,701
Balance at end of year			5,385	3,431	46,026
Treasury stock					
Balance at beginning of year	(0)	–	(0)	–	(0)
Acquisition of treasury stock	(0)	(0)	(0)	(0)	(0)
Balance at end of year	(0)	(0)	(0)	(0)	(0)
Total shareholders' equity			¥50,308	¥42,197	\$429,983

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Century Leasing System, Inc. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 11,509	¥ 10,608	\$ 98,366
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	209,801	210,252	1,793,171
Decrease in allowance for doubtful accounts	(53)	(406)	(453)
Loss on sale or disposal of leased assets	13,221	21,504	113,000
Interest and dividend income	(254)	(275)	(2,171)
Interest expense	4,896	6,314	41,846
Gain on sale of investments in securities	(0)	(436)	(0)
(Increase) decrease in installment sales receivable	(91)	14,882	(778)
Increase in loans receivable	(30,917)	(7,518)	(264,248)
Purchases of leased assets	(248,280)	(245,536)	(2,122,051)
(Decrease) increase in trade notes and accounts payable	(7,136)	10,272	(60,991)
Other, net	(2,666)	(1,485)	(22,787)
Subtotal	(49,971)	18,176	(427,103)
Interest and dividend income received	269	268	2,299
Interest expenses paid	(4,753)	(6,253)	(40,624)
Income taxes paid	(2,639)	(543)	(22,556)
Net cash (used in) provided by operating activities	(57,094)	11,648	(487,984)
Cash flows from investing activities:			
Purchases of own assets in use	(582)	(332)	(4,974)
Proceeds from sale/redemption of investments in securities	1,641	1,134	14,026
Purchases of investments in securities	(2,229)	(220)	(19,051)
Collection of loans receivable	19,711	7	168,470
Other, net	28	23	238
Net cash provided by investing activities	18,569	612	158,709
Cash flows from financing activities:			
Increase in short-term borrowings, net	123,734	35,836	1,057,556
Proceeds from long-term debt	89,054	166,735	761,145
Repayment of long-term debt	(186,036)	(227,202)	(1,590,051)
Issuance of bonds	22,900	12,000	195,726
Redemption of bonds	(12,000)	–	(102,564)
Cash dividends paid	(964)	(912)	(8,239)
Other, net	(1)	(368)	(9)
Net cash provided by (used in) financing activities	36,687	(13,911)	313,564
Effect of exchange rate changes on cash and cash equivalents	7	10	60
Net decrease in cash and cash equivalents	(1,831)	(1,641)	(15,651)
Cash and cash equivalents at beginning of year	7,751	9,392	66,248
Decrease in cash and cash equivalents resulting from change in scope of consolidation	(357)	–	(3,051)
Cash and cash equivalents at end of year	¥5,563	¥ 7,751	\$ 47,546

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Century Leasing System, Inc. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005



1. Basis of Presentation

Century Leasing System, Inc. (the "Company") and its consolidated subsidiaries (collectively, as the "Group") maintain their books of account in accordance with the provisions set forth in the Commercial Code of Japan (the "Code") and the Securities and Exchange Law of Japan (the "Law") and in conformity with accounting principles generally accepted in Japan (the "Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements of the Group, which were filed with the Director of the Kanto Local Finance Bureau as required by the Law. In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥117 = US\$1.00, the approximate rate of exchange in effect on March 31, 2006. This translation should not be construed as a representation that Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollar amounts at this or any other rate.

2. Summary of Significant Accounting Policies

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries over which the Company exerts control, principally Century Business Service, Inc.

Effective the year ended March 31, 2006, C-TRY, INC. has been included in consolidation reflecting the increase in its significance to the Group.

Century Auto Leasing Co., Ltd., which was consolidated in prior years, has been excluded from consolidation as a result of its merger on October 1, 2005; however, its results of operations were included in consolidation for the six-month period ended September 30, 2005.

CLS SAPPHIRE LEASING, LTD. has been included in consolidation effective October 1, 2005, the date on which this subsidiary commenced operations. As its fiscal year-end is December 31, its accounts have been included in consolidation with reasonable adjustments to conform them to the accounts as of March 31, 2006.

The Company's share in the earnings or losses of affiliates over which it is able to exercise significant influence in terms of their operating and financial decisions is accounted for by the equity method and included in the consolidated operating results.

On October 1, 2005, Century Auto Leasing Co., Ltd. and NTT AUTO Leasing Co., Ltd. merged to establish NIPPON CAR SOLUTIONS Co., Ltd. ("NCS"). The merged company has been accounted for by the equity method.

Yanase Auto Leasing Co., which had been accounted for by the equity method in prior years, has not been accounted for by the equity method since October 1, 2005.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition has been recognized as goodwill and included in intangible assets. The goodwill is being amortized by the straight-line method over a period of 7 years.

b) Foreign currency translation

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates in effect at the balance sheet date. Foreign exchange gain or loss on translation is recognized in the consolidated statements of income.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits held at call with banks, and short-term investments with original maturities of three months or less which are readily convertible into cash and are subject only to an insignificant risk of any change in their value.

d) Lease accounting

All finance leases of the Group are accounted for as operating leases. Under Japanese GAAP, finance leases which transfer the ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating leases with certain pro forma information on such capitalized leases disclosed in the notes to the financial statements. Revenues from operating leases are recognized on a straight-line basis over the scheduled lease terms, and leased property is depreciated by the straight-line method based on the scheduled lease terms of the respective assets.

e) Installment sales

Installment sales and the related costs are recognized as each payment becomes due under the respective installment sales agreements.

f) Allocation of interest expense

Interest expense is allocated to cost of sales and other expenses based on the balances of the respective operating assets, which consist principally of accounts receivable and leased assets, and other assets. Interest expense classified as cost of sales is stated net of interest income.

g) Securities

Securities held by the Group are classified as available-for-sale securities. Marketable available-for-sale securities are carried at fair value with any unrealized gain or loss, net of the related income taxes, included as a separate component of shareholders' equity. Cost of securities sold is determined by the moving average method. Other available-for-sale securities are stated at cost determined by the moving average method.

h) Inventories

Inventories are stated at cost determined by the moving average method.

i) Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation of assets owned and used by the Group is computed primarily by the declining-balance method (while the straight-line method is applied to buildings acquired on and after April 1, 1998) based on the estimated useful lives of the respective assets which range principally from 3 to forty-seven years for buildings, and from 3 to twenty years for equipment.

j) Computer software

Costs related to software purchased for internal use are amortized by the straight-line method over the estimated useful life (generally five years).

k) Long-lived assets

Effective April 1, 2005, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Impairment of Fixed Assets" ("Opinion Concerning Establishment of Accounting Standards for Impairment of Fixed Assets" issued by the Business Accounting Council of Japan on August 9, 2002) and "Implementation Guidelines for Accounting Standards for Impairment of Fixed Assets" (Financial Accounting Standard Implementation Guidelines No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The application of these new accounting standards reduced income before income taxes and minority interests by ¥3 million (\$25 thousand). Accumulated impairment loss has been deducted directly from the balance of the related fixed assets in accordance with the revised "Regulations Concerning Consolidated Financial Statements."



l) Income taxes

Provision is made for the Group's liability for various types of income taxes, i.e., corporation, inhabitants', and enterprise taxes. Deferred income tax assets and liabilities for the years ended March 31, 2006 and 2005 reflect the impact of the temporary differences between the amounts of assets, liabilities, and equity determined for financial reporting purposes and the bases of such assets, liabilities, and equity as calculated for tax purposes after taking tax loss carryforwards into consideration.

m) Retirement benefits

The Company and certain domestic subsidiaries have defined benefit plans covering substantially all employees other than directors and corporate auditors. Under the terms of these plans, eligible employees are entitled to lump-sum or annuity payments based on their level of compensation at termination and their years of service with the Company or the subsidiaries. To provide coverage for part of the lump-sum or annuity payments, the Company and certain domestic subsidiaries have joined a multi-employers' welfare pension fund (the "Fund") established in accordance with the Welfare Pension Insurance Law by the ITOCHU group companies.

Accrued retirement benefits have been provided for employees' retirement benefits, based on an estimate of the projected benefit obligation and the pension plan assets.

At March 31, 2006 and 2005, the liability for retirement benefits for directors and corporate auditors accrued in accordance with the Group's internal rules amounted to ¥209 million (\$1,785 thousand) and ¥206 million, respectively.

n) Derivatives and hedging activities

The Group enters into interest-rate swap contracts and foreign exchange forward contracts in order to hedge interest-rate and foreign currency exchange rate exposure on certain liabilities and assets, including loans from banks, payables under securitized lease receivable, installment sales receivable and loans denominated in foreign currencies. The Group utilizes these derivatives to reduce the risk of cash flow fluctuation inherent in the liabilities and assets hedged, and such transactions are not entered into for speculative trading purposes.

For interest-rate swap contracts and forward foreign exchange contracts, the Group follows "Accounting Standard for Financial Instruments" and "Accounting Standard for Foreign Currency Transactions." More specifically, interest-rate swaps not designated as hedging instruments are recorded at fair value in the consolidated balance sheets. Interest-rate swaps which qualify for hedge accounting and meet specific matching criteria are not measured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. Other interest-rate swaps which qualify for hedge accounting are measured at fair value as of the balance sheet date and the recognition of any unrealized gain or loss is deferred until maturity.

For forward foreign exchange contracts, the Group follows the accounting method specified in "Accounting Standard for Financial Instruments" ("Assignment Accounting"), if the contracts qualify for hedge accounting. Under this method, foreign currency transactions and the related monetary assets (installment sales receivable and loans receivable) are to be translated at the fixed yen amount of such foreign currency contracts at the settlement dates based on the contracted rates. The difference between this amount and the amount as translated at the current rate of exchange on the date of forward contract is allocated over the life of each contract. With respect to portfolio hedge contracts as prescribed in the Industry Audit Committee Report No.19, "Temporary Treatment for Accounting and Auditing of Application of the Accounting Standards for Financial Instruments in the Leasing Industry," issued by the Japanese Institute of Certified Public Accountants, the Group records these derivatives at fair value in the consolidated balance sheets and defers any unrealized gain or loss as an asset or a liability, to the extent that the nominal principal amounts of the derivatives positions do not exceed the amounts of the underlying lease-related liabilities.

o) Per share information

Under Accounting Standard No. 2 for earnings per share of common stock issued by the Accounting Standards Board of Japan, basic net income per share is computed by dividing the net income available for distribution to shareholders of common stock by the weighted-average number of shares of common stock outstanding during the period. The weighted-average number of shares of common stock used in the computation for the year ended March 31, 2006 was 52,125 thousand shares.

Diluted net income per share of common stock has not been presented because there were no potentially dilutive shares outstanding.

p) Appropriation of retained earnings

Under the Code, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 14.

On May 1, 2006, the new Corporation Law of Japan (the "Law"), which superseded the Code, went into effect. Under the Code, the Company was permitted to declare semiannual and annual dividends. Under the Law, flexible payment of dividends is permissible subject to certain limits on appropriation of retained earnings as well as to approval by resolution of the shareholders.

q) Change in method of accounting

In August 2002, the Business Accounting Council of Japan issued "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan (ASBJ) issued Financial Accounting Standards Implementation Guidance No. 6 "Implementation Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements went into effect for fiscal years beginning on or after April 1, 2005.

This standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies are required to recognize an impairment loss in their statement of income if certain indicators of asset impairment exist and if the book value of the fixed asset exceeds the undiscounted sum of its future cash flows.

The effect of the adoption of this standard was immaterial.

3. Marketable Securities and Investments in Securities

Marketable securities and investments in securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Non current:			
Equity securities	¥14,505	¥10,754	\$123,974
Debt securities	1,185	2,728	10,128
Other	1,879	1,755	16,060
	¥17,569	¥15,237	\$150,162

The carrying amounts and aggregate fair value of securities with determinable market value at March 31, 2006 and 2005 were as follows:

	March 31, 2006			
	Cost or book value	Unrealized gain	Unrealized loss	Fair value
	Millions of yen			
Available-for-sale securities:				
Equity securities	¥3,162	¥9,050	¥5	¥12,207
Debt securities	10	-	0	10



	March 31, 2005			
	Cost or book value	Unrealized gain	Unrealized loss	Fair value
Millions of yen				
Available-for-sale securities:				
Equity securities	¥2,862	¥5,699	¥17	¥8,544
Debt securities	10	0	-	10

	March 31, 2006			
	Cost or book value	Unrealized gain	Unrealized loss	Fair value
Thousands of U.S. dollars				
Available-for-sale securities:				
Equity securities	\$27,026	\$77,350	\$43	\$104,333
Debt securities	85	-	0	85

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Available-for-sale:			
Equity securities	¥2,298	¥2,210	\$19,641
Debt securities	1,175	2,718	10,043
Other	1,879	1,755	16,060

Proceeds from sale of available-for-sale securities and the resulting realized gain or loss for the years ended March 31, 2006 and 2005 are summarized as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Proceeds	¥1	¥487	\$11
Realized gain	0	437	0
Realized loss	-	2	-

The following is a summary of the contractual maturities of debt securities classified as available-for-sale securities at March 31, 2006:

	Thousands of U.S. dollars	
	Millions of yen	
Due within one year	¥ -	\$ -
Due after one to five years	9	77
Due after five to ten years	-	-
Due after ten years	-	-

4. Short-Term Borrowings, Long-Term Debt and Assets Pledged

Short-term borrowings and short-term debt at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars	Weighted- average interest rate
	2006	2005	2006	
Short-term loans from banks	¥106,250	¥ 14,116	\$ 908,120	0.32%
Commercial paper	151,800	123,600	1,297,436	0.24%
Total	¥258,050	¥137,716	\$2,205,556	—

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Interest rate
	2006	2005	2006	
Bonds due 2010	¥ 10,000	¥ —	\$ 85,470	1.16%
Long-term loans, principally from banks	288,142	360,093	2,462,752	0.93% to 5.81%
Payables under securitized lease receivables	62,070	115,943	530,513	0.60% to 1.50%
Medium-term notes	12,900	12,000	110,256	0.15% to 0.22%
Total	373,112	488,036	3,188,991	—
Less current portion	(145,530)	(197,245)	(1,243,846)	—
	¥227,582	¥ 290,791	\$ 1,945,145	—

The aggregate annual maturity of long-term debt subsequent to March 31, 2006 is summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥145,530	\$1,243,846
2008	87,136	744,752
2009	63,322	541,214
2010	50,897	435,017
2011	23,470	200,598
2012 and thereafter	2,757	23,564
	¥373,112	\$3,188,991

The Group's assets pledged as collateral, principally for long-term debt of ¥742 million (\$6,342 thousand) at March 31, 2006, were as follows:

	Millions of yen	Thousands of U.S. dollars
Accounts receivable-installment sales	¥ 15,948	\$136,308
Accounts receivable-loans	74	632
Investments in securities	1,079	9,222
Lease receivables	94,414	806,957
	¥111,515	\$953,119

5. Derivatives

In general, interest-rate swaps and foreign exchange forward contracts are exposed to market risk arising from fluctuation in interest rates and foreign exchange rates, and to credit risk arising from the potential for default by the counterparties. As the derivative instruments which the Group utilizes aim to reduce the risk of fluctuation in interest rates and foreign exchange rates associated with the underlying assets and liabilities hedged, these derivatives function to reduce the overall market risk to which the Group is subject. The Group believes that any related credit risk is very low because all counterparties to the derivatives position are financial institutions with high credit ratings.

With respect to the interest-rate swap contracts entered into by the Company, the Treasury Department, which is responsible for financing activities, handles the execution of, and monitors the internal control over, these transactions in accordance with the Company's internal regulations. Every month, the ALM Committee (whose Chairman is the Company's President) determines the Company's hedging strategy for the coming six months based on an analysis of market rate trends and the Treasury Department enters into derivatives transactions in accordance with this strategy.

The Treasury Department is also involved in the management of risk associated with foreign exchange rate fluctuation on an individual contract basis.

The consolidated subsidiaries of the Company follow the Company's internal regulations, and report the results of their hedging activities, the counterparties, the period remaining for each contract, and the fair value of the transactions to the Company every six months. The consolidated subsidiaries of the Company, as of March 31, 2006, had no open derivatives positions.

The following table presents the derivatives positions outstanding at March 31, 2006 and 2005:

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			2006		
	Contract amount (over one year)	Fair value	Unrealized gain (loss)	Contract amount (over one year)	Fair value	Unrealized gain (loss)	Contract amount (over one year)	Fair value	Unrealized gain (loss)
Interest-rate swap contracts:									
Fixed/paid; floating/received	¥7,759 (5,281)	¥(75)	¥(75)	¥12,439 (12,439)	¥(226)	¥(226)	\$66,316 (45,137)	\$(641)	\$(641)
Floating/paid; fixed/received	462 (-)	8	8	474 (474)	23	23	3,949 (-)	68	68
	¥8,221	¥(67)	¥(67)	¥12,913	¥(203)	¥(203)	\$70,265	\$(573)	\$(573)

Notes:

- Interest-rate swap contracts and forward foreign exchange contracts which qualify for hedge accounting are excluded from the market value information disclosed above.
- Fair value is derived from the net present value of the expected future cash flows discounted at the applicable interest rates in effect as of the respective balance sheet dates.

The following table presents the fair value of the portfolio hedge transactions outstanding at March 31, 2006 and 2005:

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			2006		
	Contract amount (over one year)	Fair value	Unrealized gain (loss)	Contract amount (over one year)	Fair value	Unrealized gain (loss)	Contract amount (over one year)	Fair value	Unrealized gain (loss)
Interest-rate swap contracts:									
Fixed/paid; floating/received	¥809 (250)	¥(2)	¥(2)	¥11,748 (2,324)	¥(79)	¥(79)	\$6,915 (2,137)	\$(17)	\$(17)
Floating/paid; fixed/received	- (-)	-	-	9,875 (-)	27	27	- (-)	-	-
	¥809	¥(2)	¥(2)	¥21,623	¥(52)	¥(52)	\$6,915	\$(17)	\$(17)

6. Income Taxes

The Group is subject to Japanese national and local taxes which, in the aggregate, resulted in statutory tax rates of approximately 40.6% and 39.5% for the years ended March 31, 2006 and 2005, respectively. The following is a reconciliation between the statutory tax rates and the effective tax rate for the years ended March 31, 2006 and 2005.

	2006	2005
Statutory tax rates	40.6%	39.5%
Equity in earnings of affiliates	(3.3)	-
Amortization of goodwill	0.3	0.8
Entertainment expenses not qualified as tax deductions	0.5	0.6
Inhabitants' per capita taxes	-	0.6
Other	(0.7)	0.2
Effective tax rates	37.4%	41.7%

Temporary differences and tax loss carryforwards which gave rise to deferred tax assets and liabilities for the years ended March 31, 2006 and 2005 included the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Depreciation	¥ 1,773	¥ 655	\$ 15,154
Loss on devaluation of own assets in use	541	537	4,624
Amortization of computer software	216	406	1,846
Accrued bonuses	228	286	1,949
Retirement benefits	315	281	2,692
Other	951	860	8,128
Subtotal	4,024	3,025	34,393
Less valuation allowance	(42)	(32)	(359)
Total deferred tax assets	3,982	2,993	34,034
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	(3,674)	(2,244)	(31,401)
Total deferred tax liabilities	(3,674)	(2,244)	(31,401)
Net deferred tax assets	¥ 308	¥ 749	\$ 2,633

In calculating the deferred tax assets and deferred tax liabilities at March 31, 2006, the Company used the statutory tax rate of 40.6%, applying the tax rate substantially borne by the Group with regard to inhabitants' taxes. As a result, deferred tax assets, net of deferred liabilities, increased by ¥12 million (\$102 thousand), and income taxes (deferred) and net unrealized gain on available-for-sale securities decreased by ¥74 million (\$632 thousand) and ¥62 million (\$530 thousand), respectively.

7. Retirement Benefits

The following summarizes the funding status of, and amounts recognized in the consolidated balance sheets at March 31, 2006 and 2005 for the Company's and the consolidated domestic subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥(6,160)	¥(6,249)	\$ (52,650)
Fair value of plan assets	5,430	5,311	46,410
Unfunded benefit obligation	(730)	(938)	(6,240)
Unrecognized actuarial (loss) gain	(45)	176	(385)
Unrecognized prior service cost	—	(38)	—
	¥ (775)	¥ (800)	\$ (6,625)

The following summarizes the components of the net periodic pension cost for employees for the years ended March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥310	¥331	\$2,650
Interest cost	147	143	1,256
Expected return on plan assets	(51)	(45)	(436)
Amortization of actuarial loss	124	151	1,060
Amortization of prior service cost	(37)	(56)	(316)
Contribution to the Fund	140	146	1,197
	¥633	¥670	\$5,411

The assumptions used in determining the pension benefit obligation are shown below.

	2006	2005
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	1.0%	1.0%
Period for the recognition of actuarial gain or loss	five years	five years

8. Lease Transactions

Finance leases which do not transfer ownership to the lessee are accounted for in the same manner as operating leases. Information relating to finance leases of the Group at March 31, 2006 and 2005 and for the years then ended is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
The Group as lessor:			
Acquisition cost	¥1,323,867	¥1,369,162	\$11,315,103
Accumulated depreciation	(820,561)	(824,086)	(7,013,342)
Net book value	¥ 503,306	¥ 545,076	\$ 4,301,761
Future minimum lease payments	¥ 510,653	¥ 544,418	\$ 4,364,556
Amounts of the above due within one year	177,437	189,776	1,516,556
Rental revenues	¥ 228,861	¥ 232,313	\$ 1,956,077
Depreciation expense	204,273	205,123	1,745,923
Rental revenues attributable to finance income	22,861	24,371	195,393

9. Contingent Liabilities

The Group's contingent liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
As a guarantor of indebtedness of:			
Korean Air Lines Co., Ltd.	¥ -	¥ 49	\$ -
TSUNEISHI CORPORATION	2,346	-	20,051
Employees	638	809	5,453
	¥ 2,984	¥ 858	\$ 25,504

10. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. In accordance with the Code, the Company has provided a legal reserve which is included in retained earnings.

Net unrealized gain on available-for-sale securities is not deemed to be available for the payment of dividends.

11. Related Party Transactions

Transactions with the principal shareholders for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Revenues—leases	¥1,787	¥1,675	\$15,274
Revenues—installment sales	-	419	-
Revenues—other	21	143	179
Purchases of leased assets, etc.	-	68	-

Amounts due from and to principal shareholders at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Accounts receivable—installment sales	¥ -	¥284	\$ -
Accounts receivable—leases	16	16	137
Notes and accounts payable—trade	-	26	-
Guarantee deposits from customers	225	225	1,915

The transactions with affiliates for the years ended March 31, 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2006	2006
Collections on NCS's accounts receivable on behalf of affiliates		¥10,424	\$ 89,094
Collection of loans receivable		19,700	168,376
Interest income received		18	154

Amounts due from and to affiliates at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Unsettled collection of NCS's accounts receivable on behalf of affiliates	¥130	\$1,111

12. Segment Information

Business segments for the years ended March 31, 2006 and 2005 were as follows:

Business segment

	Year ended March 31, 2006				Consolidated
	Leasing	Installment sales	Other	Eliminations or corporate	
	Millions of yen				
(1) Operating revenues					
Revenue from customers	¥255,124	¥49,238	¥2,695	¥ –	¥307,057
Intersegment revenue	–	–	–	–	–
Total sales	255,124	49,238	2,695	–	307,057
Operating expenses	241,547	47,572	2,132	5,143	296,394
Operating income	¥ 13,577	¥ 1,666	¥ 563	¥(5,143)	¥ 10,663

(2) Total assets, depreciation and capital expenditures

Total assets	¥556,063	¥100,416	¥60,078	¥33,568	¥750,125
Depreciation	209,801	–	–	891	210,692
Capital expenditures	248,279	–	–	570	248,849

	Year ended March 31, 2006				Consolidated
	Leasing	Installment sales	Other	Eliminations or corporate	
	Thousands of U.S. dollars				
(1) Operating revenues					
Revenue from customers	\$2,180,547	\$420,838	\$23,034	\$ –	\$2,624,419
Intersegment revenue	–	–	–	–	–
Total sales	2,180,547	420,838	23,034	–	2,624,419
Operating expenses	2,064,504	406,598	18,222	43,957	2,533,281
Operating income	\$ 116,043	\$ 14,240	\$ 4,812	\$(43,957)	\$ 91,138

(2) Total assets, depreciation and capital expenditures

Total assets	\$4,752,675	\$858,256	\$513,487	\$286,907	\$6,411,325
Depreciation	1,793,171	–	–	7,615	1,800,786
Capital expenditures	2,122,043	–	–	4,872	2,126,915

Year ended March 31, 2005

	Leasing	Installment sales	Other	Eliminations or corporate	Consolidated
Millions of yen					
(1) Operating revenues					
Revenue from customers	¥269,676	¥ 62,114	¥ 2,040	¥ –	¥333,830
Intersegment revenue	4	–	–	(4)	–
Total sales	269,680	62,114	2,040	(4)	333,830
Operating expenses	255,493	60,475	1,504	5,799	323,271
Operating income	¥ 14,187	¥ 1,639	¥ 536	¥ (5,803)	¥ 10,559

(2) Total assets, depreciation and capital expenditures

Total assets	¥586,272	¥100,935	¥30,710	¥28,017	¥745,934
Depreciation	210,252	–	–	967	211,219
Capital expenditures	245,536	–	–	362	245,898

Geographic segments

Sales and total assets of the Company and its domestic subsidiaries for the years ended March 31, 2006 and 2005 represented more than 90% of the consolidated sales and total assets for each respective year. Accordingly, geographic segments are not required to be disclosed.

Sales to overseas customers

Sales to overseas customers for the years ended March 31, 2006 and 2005 represented less than 10% of the consolidated sales for each respective year. Accordingly, sales to overseas customers are not required to be disclosed.

13. Supplementary CashFlow Information

Non-cash investing and financing activities:

The following were the major components of the assets and liabilities of Century Auto Leasing Co., Ltd. at its exclusion from consolidation on October 1, 2005, when it merged with NTT AUTO Leasing Co., Ltd. and the merged company was initially accounted for by the equity

	2006	
	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 8,394	\$ 71,744
Noncurrent assets	54,238	463,573
Total assets	62,632	535,317
Current liabilities	41,938	358,444
Noncurrent liabilities	17,062	145,830
Total liabilities	¥59,000	\$504,274

14. Subsequent Events

On June 23, 2006, the shareholders of the Company authorized the following appropriations of retained earnings, which have not been reflected in the consolidated financial statements for the year ended March 31, 2006:

	Millions of yen	Thousands of U.S. dollars
Appropriations:		
Cash dividends of 11.5 yen (U.S.\$0.098) per share	¥599	\$5,120
Bonuses to directors	50	427

Report of Independent Auditors



■ Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel: 03 3503 1100
Fax: 03 3503 1197

Report of Independent Auditors

The Board of Directors
Century Leasing System, Inc.

We have audited the accompanying consolidated balance sheets of Century Leasing System, Inc. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Century Leasing System, Inc. and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

June 23, 2006

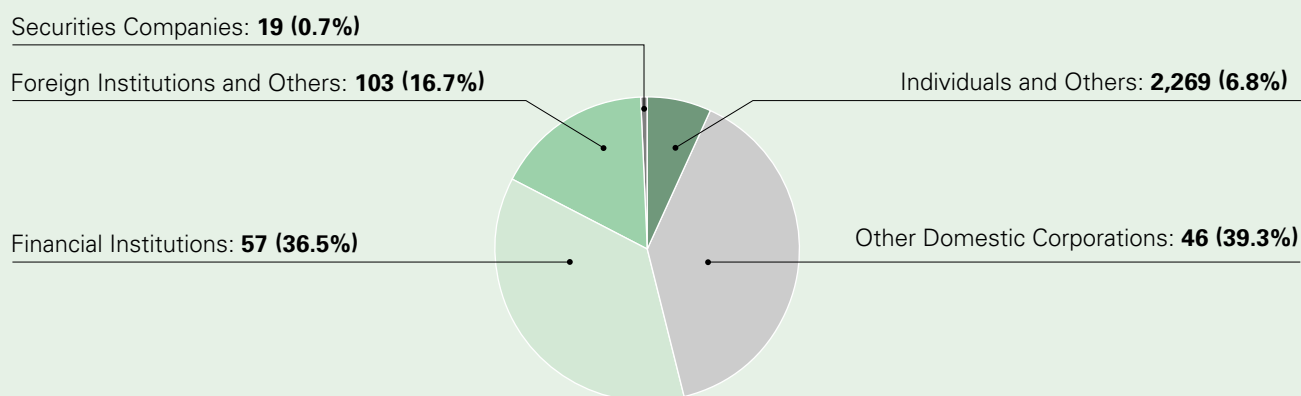
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INVESTOR INFORMATION

Number of Shares and Shareholders

Number of Shares Authorized:	168,000,000 shares
Number of Shares Issued:	52,126,000 shares
Number of Shareholders:	2,494

Ownership and Distribution of Shares



Major Shareholders

Name of Shareholders	No. of shares held (Thousands of shares)	Percentage owned (%)
ITOCHU Corporation	10,492	20.1
Nippon Life Insurance Company	5,160	9.9
Asahi Mutual Life Insurance Company	3,790	7.3
Seiwa Sogo Tatemono Co., Ltd.	2,557	4.9
Mizuho Corporate Bank, Ltd.	2,106	4.0
Yushu Corp Co., Ltd.	1,625	3.1
Japan Trustee Service Bank, Ltd. (Trust Account)	1,571	3.0
CLS Employees' Shareholding Association	1,290	2.5
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,243	2.4
Chuo Real Estate Co., Ltd.	1,039	2.0

(As of March 31, 2006)

Closing Date	March 31
Ordinary General Meeting of Shareholders	June
Transfer Agent	Mizuho Trust & Banking Co., Ltd. 2-1 Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan
Stock Exchange Listing	The First Section of the Tokyo Stock Exchange
Security Identification Code	8439

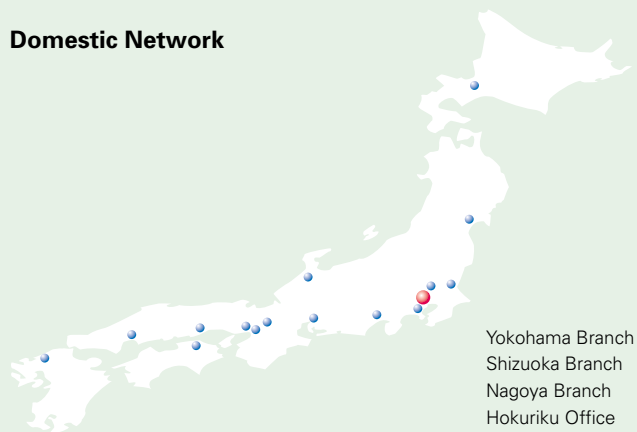
CORPORATE INFORMATION

Century Leasing System, Inc.

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4-1 Hamamatsu-cho 2-chome, Minato-ku, Tokyo 105-6110, Japan
TEL: 81-(3)-3435-4411 FAX: 81-(3)-3433-4794
- Incorporation:** July 1, 1969
- Capital:** ¥11,867,170,000
- Representative:** Mitsuaki Fukuda, President & CEO
- Business:** Diversified leasing business (leasing, installment sales, and other financial services for IT-related equipment, industrial equipment, and other machinery and facilities)
- Major shareholders:** ITOCHU Corporation; Mizuho Corporate Bank, Ltd.; Nippon Life Insurance Company;
Asahi Mutual Life Insurance Company
- Major banks:** Mizuho Corporate Bank, Ltd.; The Sumitomo Trust & Banking Co., Ltd.;
The Norinchukin Bank; The Bank of Tokyo-Mitsubishi UFJ, Ltd.; and others
- Affiliated companies:** Nippon Car Solutions Co., Ltd. (automobile leasing)
Century Business Service, Inc. (outsourcing of clerical work; insurance agent)
C-TRY, Inc. (refurbishment business)

(As of March 31, 2006)

Domestic Network



Head Office
Sapporo Branch
Sendai Branch
Omiya Branch
Ueno Branch

Ibaraki Office
Shinjuku Branch
Tokyo Chuo Branch
Tokyo Minami Branch
Tachikawa Branch

Yokohama Branch
Shizuoka Branch
Nagoya Branch
Hokuriku Office
Kyoto Branch
Osaka Branch
Kobe Branch
Hiroshima Branch
Okayama Office
Shikoku Branch
Fukuoka Branch

Additional copies of this annual report and other information may be obtained by contacting:

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 **Century Leasing System, Inc.**

