ORIX CORP
Form 20-F
July 15, 2005
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2005

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 001-14856

ORIX KABUSHIKI KAISHA

(Exact name of Registrant as specified in our charter)

ORIX CORPORATION

(Translation of Registrant s name into English)

Japan

(Jurisdiction of incorporation or organization)

Mita NN Bldg., 4-1-23 Shiba, Minato-ku

Tokyo 108-0014, Japan

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
(1) Common stock without par value, or the Shares	New York Stock Exchange*
(2) American depository shares, or the ADSs, each of which represents one-half of one Share	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

As of March 31, 2005, 87,388,706 Shares were outstanding, including Shares that

were represented by 2,258,320 ADSs outstanding as of March 31, 2005.

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 ¨ Item 18 x

* Not for trading, but only for technical purposes in connection with the registration of ADSs.

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CERTAIN DEFINED TERMS, CONVENTIONS AND

PRESENTATION OF FINANCIAL INFORMATION

As used in this annual report, unless the context otherwise requires, Company and ORIX refer to ORIX Corporation and ORIX Group, we, us our and similar terms refer to ORIX Corporation and its subsidiaries.

In this annual report, subsidiary and subsidiaries refer to consolidated subsidiaries of ORIX, companies in which ORIX owns more than 50% of the outstanding voting stock and exercises effective control over the companies operations, and affiliate and affiliates refer to all of our affiliates accounted for by the equity method, companies in which ORIX has the ability to exercise significant influence over their operations by way of 20-50% ownership of the outstanding voting stock or other means.

The consolidated financial statements of ORIX have been prepared in accordance with accounting principles generally accepted in the United States of America, or US GAAP. Unless otherwise stated or the context otherwise requires, all amounts in such financial statements are expressed in Japanese yen.

References in this annual report to yen or ¥ are to Japanese yen and references to US$, $ or dollars are to United States dollars.

Certain monetary amounts and percentage data included in this annual report have been subject to rounding adjustments for the convenience of the reader. Accordingly, figures shown as totals in certain tables may not be equal to the arithmetic sum of the figures which precede them.

The Company s fiscal year ends on March 31. The fiscal year ended March 31, 2005 is referred to throughout this annual report as fiscal 2005 or the 2005 fiscal year, and other fiscal years are referred to in a corresponding manner. References to years not specified as being fiscal years are to calendar years.

FORWARD-LOOKING STATEMENTS

This annual report contains statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. When included in this annual report, the words, will, should, expects, intends, anticipates, estimates and similar expressions, others, identify forward-looking statements. Such statements, which include, but are not limited to, statements contained in Item 3. Key Information Risk Factors, Item 5. Operating and Financial Review and Prospects and Item 11. Quantitative and Qualitative Disclosures About Market Risk, inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those set forth in such statements. These forward-looking statements are made only as of the filing date of this annual report. The Company expressly disclaims any obligation or undertaking to release any update or revision to any forward-looking statement contained herein to reflect any change in the Company s expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

SELECTED FINANCIAL DATA

The following selected consolidated financial information has been derived from our consolidated financial statements as of each of the dates and for each of the periods indicated below. This information should be read in conjunction with and is qualified in its entirety by reference to our consolidated financial statements, including the notes thereto, included in this annual report, which have been audited by KPMG AZSA & Co., the Japan member firm of KPMG International, a Swiss cooperative.

SELECTED FINANCIAL DATA

	Year ended March 31,					
	2001	2002	2003	2004	2005	2005
	(In millions of yen and millions of dollars)					
Income statement data: (1)						
Total revenues	¥ 624,975	¥ 695,089	¥ 718,890	¥ 756,670	¥ 916,950	$ 8,539
Total expenses	567,827	622,453	681,709	672,098	785,993	7,320
Operating income	57,148	72,636	37,181	84,572	130,957	1,219
Equity in net income (loss) of affiliates	29	(449)	6,203	17,924	20,043	187
Gain (loss) on sales of affiliates	2,059	119	2,002	(542)	3,347	31
Income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes	59,236	72,306	45,386	101,954	154,347	1,437
Income from continuing operations	34,157	39,706	24,578	50,510	85,521	796

Net income	34,157	40,269	30,243	54,020	91,496	852

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	As of March 31,					
	2001	2002	2003	2004	2005	2005
	(In millions of yen and millions of dollars except number of Shares)					
Balance sheet data:						
Investment in direct financing leases (2)	¥ 1,657,709	¥ 1,658,669	¥ 1,572,308	¥ 1,453,575	¥ 1,451,574	$ 13,517
Installment loans (2)	1,846,511	2,273,280	2,288,039	2,234,940	2,386,597	22,224
Subtotal	3,504,220	3,931,949	3,860,347	3,688,515	3,838,171	35,741
Investment in operating leases	451,171	474,491	529,044	536,702	619,005	5,764
Investment in securities	942,158	861,336	677,435	551,928	589,271	5,487
Other operating assets	98,175	245,897	76,343	72,049	82,651	770
Operating assets (3)	4,995,724	5,513,673	5,143,169	4,849,194	5,129,098	47,762
Allowance for doubtful receivables on direct financing leases and probable loan losses	(141,077)	(152,887)	(133,146)	(128,020)	(115,250)	(1,073)
Other assets	736,664	989,433	921,044	903,783	1,055,105	9,824
Total assets	¥ 5,591,311	¥ 6,350,219	¥ 5,931,067	¥ 5,624,957	¥ 6,068,953	$ 56,513
Short-term debt	¥ 1,562,072	¥ 1,644,462	¥ 1,120,434	¥ 903,916	¥ 947,871	$ 8,826
Long-term debt	2,330,159	2,809,861	2,856,613	2,662,719	2,861,863	26,649
Common stock	41,820	51,854	52,067	52,068	73,100	681
Additional paid-in capital	59,885	69,823	70,002	70,015	91,045	848
Shareholders equity	461,323	502,508	505,458	564,047	727,333	6,773
Number of issued Shares	82,388,025	84,303,985	84,365,914	84,366,314	87,996,090	
Number of outstanding Shares	81,706,280	83,646,466	83,693,009	83,691,007	87,388,706	

	2001	2002	2003	2004	2005
Key ratios: (4)					
Return on equity, or ROE	7.70	8.36	6.00	10.10	14.17
Return on assets, or ROA	0.62	0.67	0.49	0.93	1.56
Shareholders equity ratio	8.25	7.91	8.52	10.03	11.98
Allowance/investment in direct financing leases and installment loans	4.03	3.89	3.45	3.47	3.00
Per share data and employees:					
Shareholders equity per Share	¥ 5,646.11	¥ 6,007.52	¥ 6,039.43	¥ 6,739.64	¥ 8,322.96
Basic earnings from continuing operations per Share (5)	417.77	482.35	293.74	603.58	1,016.78
Basic earnings per Share (5)	417.77	489.19	361.44	645.52	1,087.82
Diluted earnings per Share (5)	400.99	467.11	340.95	601.46	1,002.18
Cash dividends per Share	15.00	15.00	15.00	25.00	25.00
Cash dividends per Share (6)	$ 0.14	$ 0.12	$ 0.13	$ 0.21	$ 0.23
Number of employees	9,529	11,271	11,833	12,481	13,734

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(1) As a result of the recording of income from discontinued operations based on the Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we reclassified certain items retroactively to the prior years.

(2) The sum of assets considered more than 90 days past due and total impaired assets measured pursuant to FASB Statement No. 114 amounted to ¥258,432 million, ¥255,123 million, ¥205,690 million, ¥173,286 million and ¥138,699 as of March 31, 2001, 2002, 2003, 2004 and 2005, respectively. These sums included: (i) investment in direct financing leases considered more than 90 days past due of ¥53,515 million, ¥67,924 million, ¥47,825 million, ¥36,568 million and ¥25,733 million as of March 31, 2001, 2002, 2003, 2004 and 2005, respectively, (ii) installment loans (excluding amounts covered by FASB Statement No. 114) considered more than 90 days past due of ¥84,827 million, ¥74,199 million, ¥60,587 million, ¥43,176 million and ¥26,945 million as of March 31, 2001, 2002, 2003, 2004 and 2005, respectively, and (iii) installment loans considered impaired in accordance with FASB Statement No. 114 of ¥120,090 million, ¥113,000 million, ¥97,278 million, ¥93,542 million and ¥86,021 million as of March 31, 2001, 2002, 2003, 2004 and 2005, respectively. See Item 5. Operating and Financial Review and Prospects Results of Operations Year ended March 31, 2005 compared to Year ended March 31, 2004 Details of Operating Results Revenues, New Business Volumes and Operating Assets Direct Financing Leases , Year ended March 31, 2004 compared to Year ended March 31, 2003 Details of Operating Results Revenues, New Business Volumes and Operating Assets Direct Financing Leases and Details of Operating Results Installment Loans and Investment Securities.

(3) Operating assets are defined as assets subject to regular, active sales and marketing activities including the assets shown on the balance sheet as investment in direct financing leases, installment loans, investment in operating leases, investment in securities and other operating assets. Operating assets are calculated before allowance for doubtful receivables on direct financing leases and probable loan losses.

(4) Return on equity is the ratio of net income for the period to average shareholders equity based on year end balances during the period. Return on assets is the ratio of net income for the period to average total assets based on year-end balances during the period. Shareholders equity ratio is the ratio as of the period end of shareholders equity to total assets. Allowance/investment in direct financing leases and installment loans is the ratio as of the period end of the allowance for doubtful receivables on direct financing leases and probable loan losses to the sum of investment in direct financing leases and installment loans.

(5) Basic earnings from continuing operations per share is the amount derived by dividing income from continuing operations, by the weighted-average number of common shares outstanding based on month-end balances during the year. The term basic earnings from continuing operations per share as used throughout this annual report shall have the meaning described above. Furthermore, as a result of the application of EITF Issue No. 04-8 (The Effect of Contingently Convertible Instruments on Diluted Earnings per Share) to Liquid Yield Option Notes™, which we issued in June 2002, diluted earnings per share in fiscal 2004 has been restated retroactively.

(6) The U.S. dollar amounts represent translations of the Japanese yen amounts at the noon buying rates for Japanese yen per $1.00 in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York in effect on the respective dividend payment dates.

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EXCHANGE RATES

In certain parts of this annual report, we have translated yen amounts into dollars for the convenience of readers. The rate that we used for translations was ¥107.39 = $1.00, which was the approximate exchange rate in Japan on March 31, 2005 using the telegraphic transfer rate of the Bank of Tokyo-Mitsubishi, Ltd. The following table provides the noon buying rates for yen expressed in yen per $1.00 in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York during the periods indicated. As of July 14, 2005, the noon buying rates for Japanese yen per $1.00 in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York was ¥112.14 = $1.00. No representation is made that the yen or dollar amounts referred to herein could have been or could be converted into dollars or yen, as the case may be, at any particular rate or at all.

	Year Ended March 31,				
	2001	2002	2003	2004	2005
	(Yen per dollar)				
Yen per dollar exchange rates:					
High	¥ 125.54	¥ 134.77	¥ 133.40	¥ 120.55	¥ 114.30
Low	104.19	115.89	115.71	104.18	102.26
Average (of noon buying rates available on the last day of each month during the period)	111.65	125.64	121.10	112.75	107.28
At period-end	125.54	132.70	118.07	104.18	107.22

The following table provides the high and low noon buying rates for yen per $1.00 during the months indicated.

	High	Low
2005		
January	¥ 104.93	¥ 102.26
February	105.84	103.70
March	107.49	103.87
April	108.67	104.64
May	108.17	104.41
June	110.91	106.64

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RISK FACTORS

Investing in our securities involves risks. You should carefully consider the risks described below as well as all the other information in this annual report, including, but not limited to, our consolidated financial statements and related notes and Item 11. Quantitative and Qualitative Disclosures about Market Risk. Our business, operating results and financial condition could be materially adversely affected by any of the factors discussed below or other factors. The trading prices of our securities could also decline due to any of these factors or other factors. This annual report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, the risks faced by us described below and elsewhere in this annual report. See Forward-Looking Statements. Forward-looking statements in this section are made only as of the filing date of this annual report.

Our business may continue to be adversely affected by economic conditions in Japan

We conduct a substantial portion of our operations in Japan. For much of the last decade, the Japanese economy has suffered from weakness in the economy. While some signs of improvement in the Japanese economy were seen in fiscal 2005, the credit quality of our customers and the value of our assets have been, and may continue to be, affected by the weak Japanese economy.

As a result of adverse economic conditions in Japan, we may be unable to originate more leases and loans and our nonperforming assets may increase due to our customers inability to repay their obligations, and our allowance for doubtful receivables on direct financing leases and probable loan losses may prove to be inadequate. The value of collateral securing our loans, equipment that we lease to customers, long-lived assets that we own and securities in which we invest may decline. Returns on our operating assets may also decline. Our ability to re-lease or otherwise dispose of on favorable terms equipment for which the original leasing period has expired may also be limited by adverse economic conditions in Japan. In addition, we may not be able to sell the residential condominiums or other properties that we build or acquire, or we may be forced to sell the properties below cost at a loss.

Deflation, deterioration in market demand for real estate, natural disasters or environmental hazards may adversely affect the value of our long-lived assets or collateral of our loans

We continue to have substantial holdings of long-lived assets in Japan and overseas, although we recorded significant write-downs on these assets in the past as a result of deflation and other factors. In addition, a substantial portion of our installment loans are backed by real estate collateral. The amount of our provisions for probable loan losses is calculated based in part on the estimated potential recovery of a portion of these loans pursuant to the exercise of collateral rights in the event of default.

Deflation in Japan and overseas, or any other adverse conditions related to the real estate market, especially a decline in land prices, or any other events that substantially weaken demand for real estate sales and rentals, may adversely affect our business activities, the value of the long-lived assets we own or the value of the collateral underlying loans we make. We may need to write down additional assets if we determine that it is unlikely that we will be able to recover the carrying value of those assets. We may also need to increase provisions for probable loan losses if the estimated potential recovery from the collateral is reduced. Any such events could have an adverse effect on our results of operations and financial condition.

Land prices have declined for a number of consecutive years in Japan. According to a report issued in March 2005 by the Japanese Ministry of Land, Infrastructure and Transport, or MoLIT, land values continued to fall in Japan in the year ended December 31, 2004, although the rate of decline had decreased as compared to the decline in the year ended December 31, 2003. In some sections in the three major metropolitan areas of Tokyo, Osaka and Nagoya, land prices actually rose, indicating the overall downward trend in land prices that had prevailed during recent periods had reversed itself in major cities and some other regions.

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The possibility of disaster or damage from earthquakes in Japan is generally higher than in other parts of the world. A substantial portion of our operations, long-lived assets, and collateral underlying loans is concentrated in Tokyo. If an earthquake or any other natural disaster or act of terrorism or any other human disaster were to occur in Japan, particularly in a metropolitan area like Tokyo, resulting in large-scale destruction, our long-lived assets, the collateral underlying loans we make or both would be adversely affected, and our business, results of operations, and financial condition would suffer a materially adverse effect.

In addition, before the Soil Contamination Measures Law went into effect on February 15, 2003, we did not regularly investigate at the time a loan was made whether land provided as collateral for a particular loan had been used as a factory site or operating facility in which hazardous materials were used or was otherwise land that could cause health problems due to soil contamination. If it is later determined that such land is polluted under the Soil Contamination Measures Law, the market value of the land would decrease significantly, and could have an adverse effect on the amounts receivable from the land as collateral.

Our credit losses on loans to Japanese real estate-related companies and construction companies may exceed our allowances for these loans

We have a significant amount of loans outstanding to Japanese real estate-related companies and construction companies and we maintain an allowance for probable loan losses on a portion of that amount. Our allowance for probable loan losses may be inadequate to cover credit losses on our loans to real estate-related companies and construction companies if operating conditions in the real estate industry continue to deteriorate further.

Japanese real estate-related companies and construction companies were severely affected by the collapse of the so-called economic bubble in Japan in the early 1990s. Because of the large declines in real estate prices, these companies have suffered enormous losses on their investments in real estate. Some of these losses have been recognized in the financial statements of these companies and some have not. Companies in these sectors are suffering from difficulties that resulted from the collapse of the bubble economy, including a lack of liquidity in the real estate market and a decrease in major development projects, as compared to the number of projects that were undertaken during the bubble period. As a result of these and other factors, real estate-related companies and construction companies may have difficulty paying amounts due on loans that we have made to them. In addition, the value of real estate collateral securing our loans outstanding to such companies may further decline, which may prevent us from fully recovering our loans to those companies if they default on their obligations.

Changes in market interest rates and currency exchange rates could adversely affect our assets and our financial condition and results of operations

Many of our business activities are subject to risks relating to changes in market interest rates and currency exchange rates in Japan and overseas.

Significant increases in market interest rates, or the perception that an increase may occur, could adversely affect our ability to originate new transactions, including direct financing leases and loans. An increase in market interest rates may increase the repayment burden our customers bear with respect to loans, particularly under floating interest rate loans. These burdens could adversely affect the financial condition of our customers and their ability to repay their obligations, possibly resulting in a default on our lease transactions and loans. In addition, our funding cost, and as a result, interest expense, may increase. If the increase in the amount of interest payable by us as a result of increases in market interest rates exceeds the increase in the amount of interest received by us from interest-earning assets, our results of operations would be adversely affected.

Alternatively, a decrease in interest rates could result in faster prepayments of loans. Moreover, if the decrease in the amount of interest received by us from interest-earning assets as a result of decreases in interest rates exceeds the corresponding decrease in our funding cost, our results of operations could be adversely affected.

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Not all of our assets and liabilities are matched by currency. In addition, a significant portion of our operating assets, revenues and income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes are located overseas, in particular the United States, or are derived from our overseas operations, and subject to foreign exchange risks. As a result, a rapid or significant change in currency exchange rates could have an adverse impact on our assets, financial condition and results of operations. For example, if the yen rises in value against the US dollar or other currencies, the value of assets denominated in foreign currencies will decline in yen terms in our consolidated financial statements.

We may lose market share or suffer reduced interest margins if our competitors compete with us on pricing and other terms

We compete primarily on the basis of pricing, terms and transaction structure. Other competitive factors include industry experience, client service and relationships. In recent years, Japanese banks, their affiliates and other finance companies have indicated strategies targeted at increasing business with small and medium-sized enterprises, which form the core of our customer base in Japan. Our competitors sometimes seek to compete aggressively on the basis of pricing and terms, without regard to profitability, and we may lose market share if we are unwilling to compete on pricing or terms because we want to maintain our income levels. Since some of our competitors are larger than us and have access to capital at a lower cost than we have, they may be better able to maintain profits at reduced prices. If we compete with our competitors on pricing or terms, we may experience lower income.

Our access to liquidity and capital may be restricted by economic conditions, instability in the financial markets or potential credit rating downgrades

Our primary sources of funds are cash flows from operations, borrowings from banks and other institutional lenders, and funding from the capital markets, such as offerings of commercial paper, or CP, medium-term notes, or MTN, straight bonds, asset-backed securities, or ABS, and other debt securities. A downgrade in our credit ratings could result in an increase in our interest expenses and could have an adverse impact on our ability to access the commercial paper market or the public and private debt markets, which could have an adverse effect on our financial position, results of operations and liquidity. Although we have access to other sources of liquidity, including bank borrowings, cash flows from our operations and sales of our assets, we cannot be sure that these other sources will be adequate or on terms acceptable to us if our credit ratings are downgraded or other adverse conditions arise. A failure of one or more of our major lenders, a decision by one or more of them to stop lending to us or instability in the Japanese capital markets could have an adverse impact on our access to funding.

We continue to rely significantly on short-term funding from commercial banks in Japan. We also rely on funding from the capital markets in the form of CP and other securities. We are taking steps to reduce refinancing risks by diversifying our funding sources and establishing committed credit facilities with Japanese and foreign banks. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Sources of Liquidity Committed Credit Facilities. Despite these efforts, committed credit facilities and loans are subject to financial and other covenants and conditions to drawdown, including minimum net worth requirements, and the risk remains that we will be unable to roll over other short-term funding.

Our business has in the past been, and may again be, adversely affected by adverse economic conditions in the United States

A portion of our revenue is derived from our operations in the United States, and we have significant investments in securities of US issuers and loans and leases outstanding to US companies. Although the economy continued to grow in the United States during fiscal 2005, the Federal Reserve Board, or FRB, has continued to raise interest rates incrementally since June 2004. In addition, the United States continues to experience large current-account and budget deficits. If flows of capital to finance these deficits in the United States reverses,

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capital markets of the United States, or the United States economy, could face adverse effects, including an increase in interest rates. As a result of the foregoing, our operations may be adversely affected in the future by a deterioration of economic conditions in the United States. Adverse effects on our US operations might include:

- an increase in funding costs;
- an increase in provisions for doubtful receivables and probable loan losses if the financial condition of our US customers deteriorates;
- an increase in write-downs of securities and other investments if the market values of US issuer securities in which we invest decline and such declines are determined to be other than temporary or occur as a consequence of issuer insolvency; and
- an increase in write-downs of long-lived assets, unrealized losses on, and losses on sales of real estate holdings if the value of our real estate in the United States declines significantly.

Adverse developments affecting other Asian economies may adversely affect our business

The economies of Hong Kong, Indonesia, Malaysia, Korea and other Asian countries where we operate experienced a number of problems beginning in the second half of 1997. While most of the economies in which we conduct business appeared to be stable in fiscal 2005, there is no guarantee that such stability is sustainable. While the longer-term impacts are still unknown, ORIX does not expect the Tsunami disaster caused by the earthquake that occurred off the coast of Sumatra Island in December 2004 to have a material impact on its business or results of operations. An economic crisis such as the one that swept through the region in 1997 or economic instability in individual countries could adversely affect our operations in the region. In addition, China and India are attracting substantial direct foreign investments, which may draw away investments, and therefore economic growth, from other Asian countries. Moreover, economic growth in China and its increased demand for raw materials such as crude oil and iron ore has caused a rise in the price of such materials in recent periods, and such price increases could affect not only other Asian economies, but the world economy as a whole. Conversely, weaker economic growth in China may adversely affect the Japanese and other Asian economies, which rely on China as a trading and economic partner. As a result, our Asian operations could be adversely affected. We may suffer losses on our investments, and our businesses may experience poor operating results, and we may suffer unfavorable cash-flows, if these Asian countries were to experience:

- adverse effects of a revaluation of the Chinese renminbi;
- declines in the value of the currencies of other Asian countries;
- declines in gross domestic product;
- declines in corporate earnings;
- political turmoil;

- stock market volatility; or
- foreign exchange controls.

These and other factors could result in:

- a lower demand for our services;
- a deterioration in the credit quality of our customers in Asian markets;
- a need to provide financial support to our Asian subsidiaries or affiliates; or
- write-offs of our Asian assets.

We may suffer losses on our investment portfolio and derivative instruments

We hold large investments in debt securities and equity securities, mainly in Japan and the United States. We may suffer losses on these investments because of changes in market prices, defaults or other reasons. While

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equity prices in the United States improved over the course of fiscal 2005 and remained stable in Japan, the market values of these equity securities are volatile and may decline substantially in future years. We record unrealized gains and losses on debt and equity securities classified as available-for-sale securities in shareholders equity, net of income taxes, and do not ordinarily charge these directly to income and losses, unless we believe declines in market value on available-for-sale securities and held-to-maturity securities are other than temporary. We have recorded significant losses on securities in the past and may need to record additional losses in the future.

We have substantial investments in debt securities, mainly long-term corporate bonds with fixed interest rates. We may realize a loss on our investments in debt securities as a result of an issuer default or deterioration in an issuer s credit quality. We may also realize losses on our investment portfolio if market interest rates increase. Current market interest rates for yen-denominated debt securities are particularly low.

We also utilize derivative instruments for the purpose of interest rate and foreign exchange rate risk management and trading activities. Volatility in derivatives markets, defaults by counterparties to these instruments or losses from trading activities could have an adverse impact on the value of these instruments, which may cause us to suffer losses as a result. For a discussion of derivative financial instruments and hedging, see Note 26 in Item 18. Financial Statements.

We may suffer losses if we are unable to remarket leased equipment returned to us

We lease equipment to customers under direct financing leases and operating leases. In both cases there is a risk that we will suffer losses at the end of the lease if we are unable to collect the residual value of the equipment, which we estimate at the beginning of the lease. This risk is particularly significant in operating leases, because individual lease terms are much shorter than the useful life of the equipment. If we are unable to sell or re-lease the equipment at the end of the leasing period, we may not recover our investment in the equipment and we may suffer losses. Our estimates of the residual value of equipment are based on current market values of used equipment and assumptions about when and to what extent the equipment will become obsolete. If equipment values and product market trends differ from our expectations, our estimates may prove to be wrong.

Our allowance for doubtful receivables on direct financing leases and probable loan losses may be insufficient

We maintain an allowance for doubtful receivables on direct financing leases and probable loan losses. This allowance reflects our judgment of the loss potential of these items, after considering factors such as:

- the nature and characteristics of obligors;
- current economic conditions and trends;
- prior charge-off experience;
- current delinquencies and delinquency trends;

- future cash flows expected to be received from the direct financing leases and loans; and
- the value of underlying collateral and guarantees.

We cannot be sure that our allowance for doubtful receivables on direct financing leases and probable loan losses will be adequate to cover future credit losses. In particular, this allowance may be inadequate due to adverse changes in the Japanese and overseas economies in which we operate, or discrete events which adversely affect specific customers, industries or markets. If our allowance for doubtful receivables on direct financing leases and probable loan losses is insufficient to cover these changes or events, we could be adversely affected.

Our credit-related costs might increase

We may forbear from exercising some or all of our rights as a creditor against companies that are unable to fulfill their repayment obligations, and we may forgive or extend additional loans to such companies. As a result there is a possibility that credit-related costs might increase.

Poor performance or failure of affiliates accounted for using the equity method, which include investments in companies as part of our corporate rehabilitation business, or consolidated companies in which we have invested as part of our corporate rehabilitation business, will have an adverse affect on our results of operations and financial condition

As a result of increased investments and the accumulated earnings of affiliates that are accounted for using the equity method, our investment in affiliates is significant. In some cases, we may be actively involved in the management of these affiliates by dispatching our personnel to them. In recent years, the contribution from equity method affiliates to our consolidated statements of income has increased and has been an important component of our income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes. There is no assurance that this contribution can be maintained. Poor performance by or a failure of these investments will adversely affect our financial condition and results of operations. In addition, as part of our corporate rehabilitation business, we have invested directly in or via investment funds in a number of troubled or distressed companies, some of which are now our consolidated subsidiaries or equity method affiliates. Some of the operations of these companies, which include an overseas life insurance company, a company which builds and sells residential condominiums, a sporting goods distributor and a logistics company, are very different from our core businesses. See Item 4. Information on the Company Capital Expenditures and Major M&A Activities for more discussion of our recent acquisitions. Our ability to manage and rehabilitate such businesses is still untested and the rehabilitation of these distressed companies is not guaranteed. Failure to rehabilitate these companies could result in financial losses as well as losses of future business opportunity. In addition, we may not be able to sell or otherwise dispose of the invested business or company at such time or in such period and at such price as we initially expected. We may also need to invest additional capital in certain of these companies if their financial condition deteriorates. We will continue to review and selectively pursue investment opportunities. There can be no assurance that we can continue to identify attractive opportunities, or that such investments will be as profitable as we originally expected.

Our business may be adversely affected by adverse conditions in the airline industry

We have extended a substantial amount of credit to entities in the airline industry in the form of bonds, installment loans and operating leases and have made other investments in the airline industry. Due to the deterioration of operating conditions of many entities in the industry in the past, we made provisions for doubtful receivables and probable loan losses for a portion of this exposure and recorded write-downs of airline-related securities. In recent years, the airline industry has experienced financial difficulties worldwide, particularly in North America. The airline companies continue to suffer from weak earnings and we are unable to predict whether or not, or when, these conditions will improve. If the financial condition of the companies in the airline industry deteriorates, our results of operations and financial condition may be adversely affected.

Most of our exposure to the airline industry is collateralized, mainly by aircraft. If the value of our collateral declines, we may be required to record additional losses. Also, since our exposure to the airline industry is not fully collateralized, we are exposed to the general credit risk of airline companies. Moreover, aircraft under operating leases are treated as long-lived assets. There is a possibility that we may need to record write-downs of long-lived assets associated with aircraft if it has been determined that the asset s carrying value will not be recoverable.

Inadequate or failed processes or systems, human factors or external events or factors may adversely affect our results of operations, liquidity or reputation

Operational risk is inherent in our business and can manifest itself in various ways, including business interruptions, information system shutdowns, malfunctions or failures, regulatory breaches, human errors, employee misconduct, external fraud and other external factors. For example, our integrated facilities management operations may fail to prevent a break-in. These events may result in financial loss or decline in our reputation, or otherwise hinder our operational effectiveness. Our management attempts to control operational risk and maintain it at a level we believe is appropriate. Notwithstanding our control measures, operational risk is part of the business environment in which we operate and we may incur losses at any time due to this risk.

Our operations rely heavily on computer and other information systems for the management of financial transactions, the control of private information and the monitoring and performing of our operations as part of our business decisions and risk management. The failure of these systems due to unexpected events, the wrongful use of these systems or acts of dishonesty by our employees or third parties, or the invasion of computer viruses could result in an adverse effect on our operations such as the inability to make or receive payments in a timely manner, the leakage or disappearance of confidential and personal information, or inaccuracies in the information on which we base business decisions and manage our risks. Such failures could adversely impact our liquidity or the liquidity of our customers if they rely on us for funding or transfer of payments, our customer relationships and result in legal or regulatory actions against us or otherwise have an adverse impact on our reputation and credibility.

With the expansion of our operations into areas such as retail finance, corporate and retail real estate development and the operation of facilities, such as hospitals and waste treatment facilities, including in connection with our private finance initiative, or PFI business, we are in contact with an increasing array and number of private groups and corporate entities, particularly in Japan. Even when we follow proper legal and other procedures, some of these groups may oppose or attempt to hinder our operational activities such as those related to condominium development. We may suffer damage to our reputation if these activities are negatively portrayed in the press. Our business activities may be adversely affected if legal claims or actions are instituted against us or the legal procedures used by us to defend against such claims or actions delay or suspend our operations.

In addition, we rely on indemnifications covering real estate-related liabilities, such as environmental hazards, from sellers of real estate that we purchase. We also rely on indemnifications covering defects from general contractors who construct office buildings and residential condominiums for us in connection with our real estate-related business. Should these parties become financially unsound, they may be unable to uphold their commitments under the indemnifications, and we may not be able to obtain payment that fully compensates us for the defects or any resulting capital expenditures. Defective design or construction resulting in personal injury, even if covered by a contractor indemnification, could adversely affect our reputation.

We may be exposed to increased risks as we expand or reduce the range of our products and services, or acquire companies or assets, including as part of our corporate rehabilitation business

As we expand the range of our products and services beyond our traditional businesses or acquire companies or assets, including as part of our corporate rehabilitation business, and as the sophistication of financial products and management systems grow, we may be exposed to new and increasingly complex risks, particularly if we have little or no experience with the expanded range of these products and services and the risks associated with them. As a result of competition, we cannot guarantee that the price paid for acquisitions will be fair and appropriate. If the price paid is too high, our acquisitions could result in future write-downs related to goodwill and other assets. In connection with the foregoing, our risk management systems may prove to be insufficient and may not work in all cases or to the degree required. As a result, we may face market, credit and other risks in relation to the expanding scope of our new products, services and transactions, which could result in our incurring substantial losses. In addition, our efforts to offer new services and products may not succeed if product or market opportunities develop more slowly than expected or if the profitability of opportunities is undermined by competitive pressures. Restructuring or withdrawal of our business could harm our reputation and adversely impact our results of operations and financial condition.

We may not be able to hire or retain human resources to achieve our strategic goals

Our business requires a considerable investment in human resources to successfully compete in markets in Japan and overseas. Much of our business involves specialization in the areas of financial services or the management of physical assets such as real estate, vessels and aircraft. If we cannot develop, hire or retain specialists in these areas, we may not be able to achieve our strategic goals.

Our results of operations and financial condition may be materially adversely affected by unpredictable events

Our business, results of operations and financial condition may be adversely affected by unpredictable events and any continuing adverse effect caused by such events. Unpredictable events include single or multiple and man-made or natural events that may, among other things, cause unexpectedly large market price movements or an unexpected deterioration of economic conditions of a country. Examples of such events include the 1995 Hanshin earthquake in Japan, the terrorist attacks in the United States on September 11, 2001, the outbreak of Severe Acute Respiratory Syndrome, or SARS, in Asia in 2003, and the tsunami disaster due to the earthquake off Sumatra Island in December 2004.

A failure to comply with regulations to which many of our businesses are subject could result in sanctions or penalties, harm our reputation and adversely affect our results of operations

Our moneylending, real estate, auto leasing, insurance, banking, securities and certain other businesses are subject to regulation and oversight by authorities in Japan. These businesses are subject to monitoring and inspection by the authorities. The disposal of leased equipment is regulated by the Waste Management and Public Cleansing Law. Any failure to comply with relevant laws and regulations could result in sanctions or penalties, harm our reputation and adversely impact our results of operations. For a description of regulations which our businesses are subject to, see Item 4. Information on the Company Regulation.

Changes in law and regulations may materially affect our business, results of operations and financial condition

Changes in law and regulations are unpredictable and beyond our control and may affect the way we conduct our business and the products we may offer in Japan or overseas. Such changes may be more restrictive or result in higher costs than current requirements or otherwise materially impact our business, results of operations or financial condition.

Changes in tax laws or accounting rules may affect our sales of structured financial products

Part of our business in Japan and overseas involves the sale of structured financial instrument products that are designed with a specific tax and accounting treatment in mind. If changes in the tax or accounting treatment of certain instruments or transactions that we sell or market make them less attractive to our customers, we may not be able to sell or market those instruments or transactions effectively and our business, results of operations and financial condition could be adversely affected as a result.

Litigation and regulatory investigations may adversely affect our financial results

We face risks of litigation and regulatory investigation and actions in connection with our operations. Lawsuits, including regulatory actions, may seek recovery of very large and indeterminate amounts or may limit our operations. The existence of such lawsuits and the magnitude of their effect may remain unknown for substantial periods of time. A substantial legal liability arising out of litigation, regulatory procedures, or both could have a material adverse effect on our business, results of operations, financial condition, reputation and credibility.

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Our life insurance subsidiary is subject to risks that are specific to its business

ORIX Life Insurance Corporation, or ORIX Life Insurance, our wholly-owned subsidiary, is exposed to risk of unpredictable increases in insurance payments. It may incur valuation losses if the value of securities it purchases for asset management purposes decreases. In addition, if ORIX Life Insurance fails to conduct asset liability management, or ALM, in a prudent and foresightful manner to pursue an optimal combination of risk and expected returns on investment assets and underwriting risks on insurance policy benefits, its results of operations and financial condition may suffer. ORIX Life Insurance is also subject to mandatory reserve contributions to the Life Insurance Policyholders Protection Corporation of Japan, or the PPC. The PPC was established in 1998 to provide financial support to insolvent life insurance companies. All life insurers in Japan, including ORIX Life Insurance, are members of the PPC and are required to pay contributions to the PPC based on their respective share of insurance industry premiums and policy reserves. Because a number of life insurers have become insolvent since 1998, the PPC s financial resources have been substantially reduced due to providing financial support to those companies. If there are further bankruptcies of life insurers, other member of the PPC, including ORIX Life Insurance, may be required to contribute additional financial resources to the PPC. In such an event, our financial condition and results of operations may be adversely affected.

A downgrade of our credit ratings could have a negative effect on our derivative transactions

A downgrade of our credit ratings by one or more credit rating agencies could have a negative effect on our derivative transactions. In the event of a downgrade of our credit ratings, we may be required to accept less favorable terms in our transactions with counterparties, and we may be unable to enter into or continue to engage in some derivative transactions. This could have a negative impact on our risk management and the profitability of our trading activities, which would adversely affect our liquidity, results of operations and financial condition.

We may not be able to manage our risks successfully through derivatives

We use a variety of derivative financial instruments to reduce our exposure to fluctuations in foreign exchange, interest rates and market values with respect to our investment portfolios. However, we may not be able to successfully manage our exposure through the use of these derivatives. In addition, a counterparty may fail to honor the terms of its derivatives contracts with us. Our inability to manage our risks successfully through derivatives or a counterparty s failure to honor its obligations to us could have a material adverse effect on our results of operations and financial condition.

It may not be possible for investors to effect service of process within the United States upon ORIX or ORIX s directors or executive officers, or to enforce against ORIX or those persons judgments obtained in US courts predicated upon the civil liability provisions of the federal securities laws of the United States

ORIX is a joint stock company incorporated in Japan. Most or all of ORIX s directors and executive officers are residents of countries other than the United States. Although some of ORIX s subsidiaries have substantial assets in the United States, substantially all of ORIX s assets and the assets of ORIX s directors and executive officers are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon ORIX or ORIX s directors and executive officers or to enforce against ORIX or those persons, in US courts, judgments of US courts predicated upon the civil liability provisions of US securities laws. ORIX has been advised by its Japanese counsel that there is doubt, in original actions or in actions to enforce judgments of US courts, as to the enforceability in Japan of civil liabilities based solely on US securities laws. A Japanese court may refuse to allow an original action based on US securities laws.

The United States and Japan do not currently have a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil or commercial matters. Therefore, if you obtain a civil judgment by a US court, you will not necessarily be able to enforce such judgment directly in Japan.

Our real estate investments may be uninsured or under-insured for certain losses

We ordinarily carry comprehensive casualty insurance covering our real estate investments with insured limits that we believe are adequate and appropriate against anticipated losses. There are, however, certain types of losses caused by events such as wars, acts of terrorism, willful acts or gross negligence that are uninsurable. In addition, we do not usually carry insurance for damages caused by earthquakes because the insurance coverage on such damages is limited and the insurance premium is relatively expensive. Most of our real estate investments are located in Japan, a region subject to a relatively high risk of magnitude and frequency of earthquakes.

In the event any of our real estate investments suffer an uninsured loss, our investment balance in and revenues from such investments could be adversely affected. In addition, we would likely remain liable for indebtedness and other financial obligations relating to the relevant property. No assurance can be given that uninsured material losses will not occur in respect of our real estate investments.

Dispositions of the Shares, particularly by major shareholders, may adversely affect market prices for the Shares

A few of our shareholders hold more than five percent of the total number of outstanding Shares. These shareholders may for strategic or investment reasons decide to reduce their shareholding in ORIX. Dispositions of the Shares, particularly by such major shareholders, may adversely affect market prices of the Shares. For information on shareholdings, see Item 7. Major Shareholders and Related Party Transactions.

The departure of top management could adversely affect us

Our continued success relies significantly on the ability and skills of our top management. The sudden departure of the current top management could have an adverse effect on our business activities, financial condition and results of operations.

Change of listed sections and delisting of Shares could adversely affect the liquidity and price of the Shares

Each of Tokyo Stock Exchange, Inc. and Osaka Securities Exchange Co., Ltd on which the Shares are listed in Japan has certain standards for maintaining the listing of shares, including a minimum share distribution standard (a requirement for a minimum number of unaffiliated holders of units of our shares). If any of the listing standards is not observed, the Shares may be subject to a change in their listed section, from the more prestigious section 1 to section 2 or in certain cases, delisting. In general, the liquidity of shares on section 2 is lower and share price volatility is higher than section 1. If our Shares were changed to section 2, the liquidity and price of the Shares could be adversely affected.

Holding a professional baseball team entails reputation risks

We own and manage a professional baseball team in Japan, the ORIX Buffaloes. Management of a professional baseball team in Japan, due to its public nature, requires us to pay sufficient attention to various social effects it may have and has increased our reputation risk. As a result, our business activities, financial condition and results of operations could be adversely affected.

There is a risk that our risk management will not be effective

Part of our risk management is based on historical data or specific information from the past. There is no guarantee that such data or information or management is an accurate or credible predictor of the future. Therefore, our risk management may not be effective in some cases.

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We expect to be treated as a passive foreign investment company

We expect to be treated as a passive foreign investment company under the U.S. Internal Revenue Code because of the composition of our assets and the nature of our income. U.S. investors in our Shares or ADSs are therefore subject to special rules of taxation in respect of certain dividends or gain on such Shares or ADSs. Please read carefully the section in this annual report called Item 10. Additional Information Taxation United States Taxation. Investors are urged to consult their own tax advisors regarding all aspects of the income tax consequences of investing in our Shares or ADSs.

If you hold fewer than 100 Shares, you will not have all the rights of shareholders with 100 or more Shares

One unit of the Shares is comprised of 100 Shares, or 200 ADSs. Each unit of the Shares has one vote. A holder who owns Shares or ADRs in other than multiples of 100 or 200, respectively, will own less than a whole unit (i.e., for the portion constituting fewer than 100 Shares, or ADRs evidencing fewer than 200 ADSs). The Japanese Commercial Code imposes significant restrictions on the rights of holders of shares constituting less than a whole unit, which include restrictions on the right to vote and on the transferability of less than whole unit shares. Under the unit share system, holders of Shares constituting less than a unit have the right to require ORIX to purchase their Shares and the right to require ORIX to sell them additional Shares to create a whole unit of 100 Shares. However, holders of ADRs are unable to withdraw underlying Shares representing less than one unit and, as a practical matter, are unable to require ORIX to purchase those underlying Shares. The unit share system, however, does not affect the transferability of ADSs, which may be transferred in lots of any size.

Foreign exchange fluctuations may affect the value of our securities and dividends

The market price for our ADSs may fall if the value of the yen declines against the dollar. In addition, the amount of cash dividends or other cash payments made to holders of ADSs would decline if the value of the yen declines against the dollar.

Because of daily price range limitations under Japanese stock exchange rules, you may not be able to sell the Shares at a particular price on any particular trading day, or at all

Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price formation. To prevent excessive volatility, these exchanges set daily upward and downward price fluctuation limits for each listed stock, based on the previous day s closing price. Although transactions on a given Japanese stock exchange may continue at the upward or downward price limit, if the price limit is reached on a particular trading day, no transactions on such exchange may take place outside these limits. Consequently, an investor wishing to sell Shares on a Japanese stock exchange at a price outside of the relevant daily limit may be unable to complete the sale through that exchange on that particular trading day, or at all.

Holders of our ADRs are not limited by the daily price limit set by the Japanese stock exchanges. Holders of the Shares who are unable to sell those Shares on a Japanese stock exchange because an upward or downward price limit for the Shares has been reached preventing further trades outside of the permitted ranges may be negatively impacted by any such trading that occurs in our ADRs.

Rights of shareholders under Japanese law may be different from those under the laws of other jurisdictions

Our Articles of Incorporation, the regulations of our board of directors and the Japanese Commercial Code govern our corporate affairs. Legal principles relating to such matters as the validity of corporate procedures, directors and officers fiduciary duties and shareholders rights are different from those that would apply if we were not a Japanese corporation. Shareholders rights under Japanese law are different in some respects from shareholders rights under the laws of jurisdictions within the United States and other countries. You may have

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more difficulty in asserting your rights as a shareholder than you would as a shareholder of a corporation organized in a jurisdiction outside of Japan. For a detailed discussion of the relevant provisions under the Japanese Commercial Code and our Articles of Incorporation, see Item 10. Additional Information Memorandum and Articles of Incorporation.

A holder of ADRs has fewer rights than a shareholder and must act through the depositary to exercise those rights

The rights of shareholders under Japanese law to take various actions, including voting their shares, receiving dividends and distributions, bringing derivative actions, examining a company s accounting books and records, and exercising dissenters rights, are available only to holders of record on a company s register of shareholders. Because the depositary, through its custodian agent, is the registered holder of the Shares represented by our ADSs, only the depositary is able to exercise those rights in connection with the deposited Shares. The depositary will make efforts to vote the Shares represented by our ADSs as instructed by the holders of the ADRs representing such ADSs and will pay to those holders the dividends and distributions collected from us. However, a holder of ADRs will not be able directly to bring a derivative action, examine our accounting books and exercise dissenters rights through the depositary unless the depositary specifically undertakes to exercise those rights and is indemnified to its satisfaction by the holder of ADRs for doing so.

Item 4. Information on the Company

GENERAL

ORIX Corporation is a joint stock corporation (*kabushiki kaisha*) formed under Japanese law. Our principal place of business is at Mita NN Bldg., 4-1-23 Shiba, Minato-ku, Tokyo 108-0014, Japan, phone: +813-5419-5000. Our general e-mail address is: koho@orix.co.jp and our URL is: www.orix.co.jp/grp/index_e.htm. The information on our website is not incorporated by reference into this annual report. ORIX USA Corporation, or ORIX USA, is ORIX s agent in the United States and its principal place of business is at 1717 Main Street, Suite 800, Dallas, Texas 75201 USA.

CORPORATE HISTORY

ORIX Corporation was established on April 17, 1964 in Osaka, Japan as Orient Leasing Co., Ltd. by three trading companies and five banks that included Nichimen Corporation, Nissho and Iwai (presently Sojitz Corporation), the Sanwa Bank and Toyo Trust & Banking (presently UFJ Holdings, Inc.), the Industrial Bank of Japan and Nippon Kangyo Bank (presently Mizuho Financial Group), and the Bank of Kobe (presently Sumitomo Mitsui Financial Group). While we maintain certain business relationships with these companies, in the aggregate they now hold only a limited number of the Shares.

Our initial development occurred during the period of sustained economic growth in Japan during the 1960s and lasted through to the early 1970s. During this time, strong capital spending by the corporate sector fueled demand for equipment, and led to the first wave of newly established leasing companies in Japan. Under the leadership of the late Tsuneo Inui, who served as President from 1967 to 1980, we capitalized on the growing demand in this period by expanding our portfolio of leasing assets.

It was also during this time that our marketing strategy shifted from a focus on using the established networks of the trading companies and other initial shareholders, to one that concentrated on independent marketing as our number of branches expanded. In April 1970, we listed the Shares on the second section of the Osaka Securities Exchange, which at the time was the fastest listing by a new company in post-World War II Japan. Since February 1973, the Shares have been listed on the first sections of the Tokyo and Nagoya Stock

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Exchanges and the Osaka Securities Exchange. On September 16, 1998, ORIX listed on the New York Stock Exchange, with the ticker symbol IX. ORIX delisted from the Nagoya Stock Exchange on October 23, 2004.

The 1970s saw the gradual maturing of the Japanese leasing industry, and the Japanese economy was adversely affected by the two oil shocks of 1973 and 1979, resulting in reduced growth in capital spending and increased volatility in foreign exchange rates. Despite these difficulties, we continued to grow rapidly by expanding and diversifying our range of products and services to include ship and aircraft leasing along with real estate-related finance and development. Beginning in 1972 with the establishment of ORIX Alpha Corporation, or ORIX Alpha, which concentrated on leasing furnishings and fixtures to retailers, hotels, restaurants and other users, we set up a number of specialized leasing companies to tap promising new markets, including ORIX Auto Leasing Corporation, or ORIX Auto Leasing, in 1973 and ORIX Rentec Corporation, or ORIX Rentec, in 1976. With the establishment of ORIX Credit Corporation, or ORIX Credit, in 1979, we began our move into the retail market by providing shopping credit. We also began to provide housing loans in 1980.

During the 1970s we began expanding overseas, establishing our first overseas office in Hong Kong in 1971, followed by Singapore in 1972, Malaysia in 1973, the United States in 1974, Indonesia in 1975, South Korea in 1975, the Philippines in 1977 and Thailand in 1978.

Yoshihiko Miyauchi became President and CEO in 1980. During the 1980s, we continued to expand the range of our products and services, and placed increased emphasis on strengthening synergies among our group companies by emphasizing knowledge sharing and cooperation to make optimal use of corporate resources. This included a focus on cross-selling a variety of products and services to our customers, a focus that continues to this day.

During the 1980s, we began using mergers and acquisitions to expand operations, acquiring ORIX Securities Corporation, or ORIX Securities (formerly Akane Securities K.K.), and ORIX Estate Corporation, or ORIX Estate (formerly ORIX Ichioka Corporation), which is involved in real estate and leisure facility management, in order to expand our array of financial products and services.

In 1988, we acquired one of the twelve professional baseball teams in Japan, now called the ORIX Buffaloes, which has helped raise our name recognition and promote our corporate image. In 1989, we introduced a corporate identity program and changed our name to ORIX Corporation from Orient Leasing Co., Ltd. to reflect our increasingly international profile and diversification into financial services other than leasing.

In the 1990s, the Japanese economy experienced a protracted period of industrial stagnation, and in the latter half of the decade, instability within the financial sector. Notwithstanding these adverse conditions, we continued to further develop and diversify our financial activities and products. For example, in 1991 we entered the life insurance business through ORIX Life Insurance (originally the Japanese operations of United of Omaha Life Insurance Company of the United States) and steadily increased our operations in this field. In addition, in 1997 we entered the loan servicing business through a joint venture with Bank One Corporation of the United States (presently part of ORIX USA Corporation, or ORIX USA).

In the 1990s we also made additional efforts to develop our retail business. ORIX Life Insurance commenced sales of a new range of directly marketed life insurance products ORIX Direct Life Insurance in September 1997, targeting the consumer life insurance market. In addition, we acquired ORIX Trust and Banking Corporation, or ORIX Trust and Banking (formerly Yamaichi Trust & Bank, Ltd.), in 1998, which has since concentrated primarily on housing loans. With deregulation of brokerage commissions in 1999, ORIX Securities began ORIX ONLINE, an internet-based brokerage aimed at individual investors.

In 1999, in order to increase the efficiency of our real estate-related operations, we established our Real Estate Finance Headquarters, which is primarily engaged in real estate-related finance, and ORIX Real Estate Corporation, or ORIX Real Estate, which focuses on the development, operation and management of real estate in Japan. After this reorganization, we expanded our activities to include loan servicing, real estate investment trusts, commercial mortgage-backed securities, integrated facilities management and asset management in Japan.

We established our Investment Banking Headquarters in 1999, and have since been attempting to expand our investment banking activities, which include principal investments, corporate rehabilitation and consulting.

Since 2000 we have actively expanded our automobile-related operations by acquiring companies and assets. For example, in addition to our existing companies, ORIX Auto Leasing and ORIX Rent-A-Car, we purchased Senko Lease and IFCO Ltd. in 2001, Nittetsu Leasing Auto Co., Ltd. in 2002, and JAPAREN in 2003. We combined these companies into ORIX Auto Corporation in January 2005.

In order to reflect changes to the composition of our business, certain line items in our consolidated financial statements were reclassified in fiscal 2005. Amounts in prior years have been reclassified in accordance with the presentation for fiscal 2005. See the discussion in Item 5. Operating and Financial Review and Prospects.

STRATEGY

ORIX currently has nine business segments, and we view each segment as falling into one of three categories based primarily on what we are trying to achieve in each segment:

- a solid and steadily growing profit base;
- accelerated growth businesses; and
- new growth opportunities for the future.

BOLSTERING THE SOLID AND STEADILY GROWING PROFIT BASE

We consider three business segments in Japan Corporate Financial Services; Rental Operations; and Life Insurance and one overseas regional segment Asia, Oceania and Europe to be our stable profit base in light of the performance to date in these segments. We hope that we can further bolster this profit base by drawing on our accumulated expertise and the customer confidence we have earned to steadily augment earnings in each of these segments.

Corporate Financial Services is our core business segment in Japan. In it, we utilize our nationwide sales and marketing network to provide small and medium-sized enterprises with leases and loans while also cross-selling a broad range of insurance, asset management, and other financial services offered by units in other segments as well as companies outside of the ORIX Group. The Corporate Financial Services segment is also providing investment banking solutions that facilitate customers efforts to restructure their operations and strengthen their financial positions. To enable cross-selling initiatives tailored to customer needs and the proposal of optimal customer solutions, we strive to ensure that the know-how and information that individual employees accumulate in specialized fields are freely shared and combined with other ORIX Group units.

In addition, other segments in Japan are able to leverage the network of the Corporate Financial Services segment made up of small and medium-sized enterprises and other customers to market their own products and services. The network is also a source of information for the development of new products and services based on customer needs. We believe this business model is a difficult one for competitors to copy. In essence, besides being a main component of our profit base, the Corporate Financial Services segment offers other business segments the use of highly useful marketing and information networks and thereby plays a central role in supporting the entire Group s dynamic growth.

Currently, the Corporate Financial Services segment is trying to develop even stronger client relationships by expanding its range of transactions with long-standing customers while also seeking to initiate business with new customers. To ensure our efforts are effective, we are upgrading the abilities of individual sales and marketing representatives and increasing their total number while also working to promote greater cooperation with other segments and thereby enhance our capabilities for providing solutions. There are many players focusing on the provision of financial products and services to small and medium-sized enterprises. Rather than competing directly with those players, however, we are seeking to complement and cooperate with their efforts as we expand our operations in fields where we are particularly strong. For example, ORIX has established joint-venture leasing companies in cooperation with regional banks and built other relationships with regional financial institutions as business partners. We are now pursuing new types of partnerships with these institutions.

For example, in January 2005, ORIX acquired all the Ashikaga Financial Group s shares in Kitakanto Lease Company Limited. To cement our relationship, Ashikaga Bank acquired a 5% stake in the newly-formed company called ORIX Kitakanto Corporation. All Kitakanto Lease s full-time employees and offices were retained, and its operations were integrated with ORIX s Utsunomiya Branch. ORIX Kitakanto is working to generate new business opportunities by combining the marketing bases of both Ashikaga Bank and Kitakanto Lease with ORIX s sophisticated capabilities for providing financial solutions to small and medium-sized enterprises. We expect to continue establishing new types of locally-focused businesses in other regions, carefully tailoring these businesses to the special conditions of each region.

The spirit of cooperation that has proven so successful in Japan is also extended to the countries and regions covered by the Asia, Oceania and Europe segment, where we are primarily providing small and medium-sized enterprises with such financial services as leases and loans, thereby building up a stable business portfolio of highly dispersed, small-ticket transactions. We are now working to expand our clientele by promoting synergistic cooperation among other segments. For example, we have been promoting cooperation involving the sharing of know-how between the automobile leasing business in Japan and our overseas operations. In June 2005, ORIX also made an investment in a leasing company in Kazakhstan and our plans call for seeking additional opportunities to establish a presence in other regions with relatively undeveloped financial services markets.

ACCELERATING THE SPEED OF GROWTH BUSINESSES

ORIX has steadily increased the sophistication of its business models through the accurate and timely response to opportunities associated with changes in macroeconomic conditions and customer needs. For example, we have already been:

- shifting our emphasis from only lease financing to include services in the Automobile Operations segment;
- expanding operations beyond the financing of real estate to include the development of condominium and office building projects in the Real Estate segment; and
- broadening our scope of operations in the Real Estate-Related Finance segment to take advantage of relatively new opportunities such as securitization and other real-estate linked financial products. We are proactively taking measures to expand these growth businesses.

Starting with the Automobile Operations segment, in January 2005, ORIX merged seven group companies involved in automobile leasing and rental services into a single company named ORIX Auto Corporation. The integration has facilitated the creation of a broad range of lease and rental products. With the introduction of these and other steps to upgrade and broaden our lineup of automobile-related products and services, we are aiming to further expand automobile leasing to corporate customers as well as both leasing and rentals to individuals.

In the area of automobile leasing to corporate customers, we have created an outstanding infrastructure for fleet maintenance and management including vehicle management systems and a nationwide network of some 12,000 service stations. We are leveraging this infrastructure to provide a broad range of high-quality services centering on maintenance leases as we attempt to develop a new business model that includes not only leasing, but also the potential of diverse new approaches to the automobile-related business in general.

A core business in the Real Estate segment is condominium development, where we are striving to build new types of value-added development projects that include combinations of condominiums with commercial, medical, and nursing care facilities. We also believe there are considerable opportunities in metropolitan centers to increase the scale of our real estate operations, including the development and marketing of office buildings and other commercial facilities as well as operations involving leasing and administering various kinds of properties.

In the Real Estate-Related Finance segment, we are cooperating with regional financial institutions in Japan to establish regional corporate rehabilitation funds and taking various other measures to strengthen our capabilities for capitalizing on business opportunities associated with the final stage of problem asset disposals. We are anticipating additional growth in the market for a broad range of business associated with securitization and other financial products linked to real estate assets. We expect to derive considerable advantages in this field from our capabilities in a wide range of real estate-related businesses, including the provision of non-recourse loans, the issuance of commercial mortgage-backed securities, the management and administration of real estate properties, loan servicing, and marketing products to investors.

DEVELOPING NEW OPPORTUNITIES FOR FUTURE GROWTH

The growth in earnings from both our stable profit base and accelerated growth segments has steadily increased. However, realizing ORIX s goal of sustained growth in corporate value, and ultimately shareholder value, requires that we continually take a proactive approach to the development of operations in new growth areas.

Thus far, ORIX has pursued sustained growth by entering new business fields in areas where we can leverage our special strengths. The Other segment has numerous businesses that are well suited for the expansion of ORIX s operations. Currently, the potential scope of business involving principal investments is steadily broadening, and this is likely to be an important new growth area for us. Having now completed the reorganization of our operations in The Americas segment, we are considering it also to be a new growth segment ripe for dynamic redevelopment.

ORIX has gained considerable experience in M&A transactions, while expanding its operations in the Americas and Asia, and since the mid-1990s, it has made several successful investments in Japan in connection with the efforts of many Japanese companies to concentrate their resources in core strategic fields. We began our principal investment operations to make fuller use of our accumulated know-how as a result of this experience. Rather than managing funds obtained from investors, our principal investment operations entail investing our own funds, taking steps to augment the value of each company in which we invest within a specified period of time, and then earning profits on the sale of our investment. We have already made steady progress in expanding the corporate rehabilitation business involving investments in such companies as Aozora Bank and Footwork Express. We anticipate a full-fledged expansion of the market for such principal investment business, and we believe that it is a business that will generate synergistic benefits with regard to our Corporate Financial Services segment, which is expanding financial services to small and medium-sized enterprises.

Regarding operations in the Americas, we have already established a franchise in the field of commercial mortgage-backed securities. We are aiming to complement our existing franchises by developing additional businesses in the United States where we hope to benefit from the experience of competing in the world s most advanced and diverse financial market.

FURTHER INCREASING THE RIGOR OF RISK MANAGEMENT

As we have expanded our operations, we have continually worked to strengthen our risk management systems. In evaluating credit risks associated with our mainstay lease and loan transactions in Japan, for example, we employ our own unique default probability model to quantify risks. We are thus able to use quantified risk indicators to allocate risk capital to individual business segments and then evaluate the profitability of these

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sectors based on their cost of capital. Consequently, we have created a highly sophisticated business portfolio management system that facilitates our strategic decision-making process. We believe our growth in the past has been supported by the sophistication and effectiveness of our risk management and portfolio management systems. Our future development can only be sustained if we further continuously strengthen these systems.

OVERVIEW OF ACTIVITIES

Our operations presently consist of five major areas:

- corporate finance;
- real estate-related businesses;
- life insurance;
- retail finance; and
- overseas operations.

Corporate finance is primarily the provision of financial products and services, including leasing, lending, and, more recently, investment banking services, to mainly small and medium-sized enterprises in Japan. Real estate-related businesses include the development, management, operation and sale of real estate in addition to real estate-related finance, such as non-recourse loans, commercial mortgage-backed securities, loan servicing and real estate investment trusts in Japan. Life insurance includes underwriting and agency sales of life insurance products in Japan. Retail finance is primarily the provision of housing loans and consumer card loans in Japan. Overseas operations consist primarily of leasing and lending to corporate customers, real estate-related businesses, investment in securities and loan servicing in North America, Asia, Oceania, Europe, Northern Africa and the Middle East.

PROFILE OF BUSINESS BY REVENUES AND OPERATING ASSETS

We believe there are two primary methods for viewing our performance in light of our consolidated financial information. One method is based upon individual revenue and operating asset items in our consolidated statements of income and consolidated balance sheets, broken down based on the financial accounting treatment we give to the different financial and other transactions that we make. The alternative method is based on our segment information, which is broken down based on the nature of the services provided by the operations in Japan and on geographic area for overseas operations. The following provides an explanation of each business based on the first method. For an explanation of each business based on the second method see Profile of Business by Segment.

The following table shows revenues by revenue type.

	Years ended March 31,		
	2003	2004	2005
	(In millions of yen)		
Revenues:			
Direct financing leases	¥ 122,928	¥ 112,372	¥ 113,154
Operating leases	159,807	166,587	181,808
Interest on loans and investment securities	131,590	116,744	136,035
Brokerage commissions and net gains on investment securities	10,857	26,025	33,906
Life insurance premiums and related investment income	138,439	134,154	137,004
Real estate sales	71,165	98,034	123,162
Gains on sales of real estate under operating leases	3,257	9,116	1,554
Transportation revenues			55,339
Other operating revenues	80,847	93,638	134,628
Total revenues	¥ 718,890	¥ 756,670	¥ 916,950

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In fiscal 2005, 86% of our revenues came from operations in Japan, while 14% came from operations overseas.

No single customer accounted for 10% or more of total revenues in fiscal 2003, 2004 and 2005.

Except for revenues from fees and commissions, and revenues recognized from the sale of certain real estate developments, such as residential condominiums, in which assets are recorded as inventories, revenues are generated from the operating assets as shown in the table below.

	As of March 31,		
	2003	2004	2005
	(In millions of yen)		
Operating assets:			
Investment in direct financing leases	¥ 1,572,308	¥ 1,453,575	¥ 1,451,574
Investment in operating leases	529,044	536,702	619,005
Installment loans	2,288,039	2,234,940	2,386,597
Investment in securities	677,435	551,928	589,271
Other operating assets	76,343	72,049	82,651
Total operating assets	¥ 5,143,169	¥ 4,849,194	¥ 5,129,098

As of March 31, 2005, 85% of our operating assets were located in Japan, while 15% were overseas.

The following is a description of our revenue items, which includes a discussion of operating assets as applicable.

DIRECT FINANCING LEASES

The typical direct financing lease is a full-payout lease for one specific user and is generally non-cancelable during the lease term. We purchase the equipment on behalf of the user who usually makes monthly payments of a fixed amount. Financial terms are designed to recover most, if not all, of the initial cost of the equipment, interest and other costs during the initial contractual lease term and this type of contract is often referred to as a full-payout lease. In Japan, we usually retain ownership of the equipment and can lease the equipment again or sell it in the secondary markets after the initial lease contract expires. In certain cases, the lessee has an option to purchase the equipment after the lease contract expires, or in the case of what are called hire-purchases, the ownership rights of the equipment transfer to the lessee upon completion of the contract.

We treat direct financing leases as financial assets. When we receive lease payments from lessees, the interest component and the amortized amount of the initial up-front fee are recorded as revenues on our consolidated statements of income, while the portion of the lease payment attributable to the principal is recognized in the consolidated statement of cash flows. For more information on revenue recognition of direct financing lease revenues, see Note 1(e) in Item 18. Financial Statements.

Direct financing leases made up 12% of total revenues and 28% of total operating assets as of and for the year ended March 31, 2005.

We provide direct financing leases in Japan and in most countries in which we have operations. Our direct financing leases cover most types of equipment, which we broadly categorize into:

- transportation equipment;
- industrial equipment;
- commercial services equipment;
- information-related and office equipment; and
- other equipment.

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Transportation Equipment

Transportation equipment within our direct financing lease portfolio consists primarily of automobile fleet leasing to corporate clients. ORIX Auto Corporation is our main subsidiary handling operations in Japan. We also have subsidiaries in several countries in Asia, Oceania and Europe that lease automobiles.

Industrial Equipment

Industrial equipment primarily consists of construction and heavy equipment. The main companies providing these leases are ORIX in Japan and ORIX USA in the United States.

Commercial Services Equipment

Commercial services equipment includes vending machines, gaming machines, showcases and point-of-sales systems. The main companies providing these leases are ORIX and ORIX Alpha in Japan.

Information-Related and Office Equipment

Information-related and office equipment includes computers and office automation equipment such as photocopy machines. Much of this equipment is leased by the ORIX OQL Headquarters through a program in Japan called ORIX Quick Lease, in which independent vendors act as agents to lease these small-ticket items. We have systematized the contract process and automated credit evaluations to improve the efficiency of our origination activities.

Other Equipment

Other equipment that we lease includes telecommunications and medical equipment. Most of these leases are made in Japan.

OPERATING LEASES

Operating leases differ from direct financing leases in that they generally have shorter lease terms. In some cases, such as automobile rentals, the term can be less than a day. As a result, we usually do not substantially recoup the initial cost of the item through lease payments during the initial lease term, but instead usually lease out the same item sequentially to more than one customer (or to the same customer under successive lease contracts) during its useful life. We record the entire payment made by a customer under an operating lease as revenue, with a corresponding expense called Costs of Operating Leases.

In the Japanese marketplace, operating leases are often referred to as rentals. As the lessor of an operating lease, we bear the residual value risk. This means that we must always maintain strong links to secondary markets for the purchase and sale of used equipment. The principal participants in these informal, unregulated markets are brokers and dealers who specialize in the purchase and sale of used equipment.

Operating leases made up 20% of consolidated revenues and 12% of total operating assets as of and for the year ended March 31, 2005.

We broadly classify our operating lease operations into three principal types of equipment:

- transportation equipment;
- precision measuring equipment and personal computers; and
- real estate and other.

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Transportation Equipment

Transportation equipment that we lease out under operating leases consists mainly of aircraft, automobiles and oceangoing vessels. As of March 31, 2005, we owned 20 aircraft and managed an additional 55 on behalf of other owners. These are leased principally to European, North American and Asian carriers. We own 18 Airbus 320s, one Airbus 340 and one Boeing 737. Our aircraft lease operations are managed by ORIX Aviation Systems Limited, or ORIX Aviation, based in Ireland. Our two principal markets for automobile operating leases, including automobile rentals, are Japan and Australia, although we also maintain automobile operating lease operations in several Asian countries.

Precision Measuring Equipment and Computers

Our specialist subsidiary, ORIX Rentec, rents precision measuring equipment and computers in Japan and selected overseas markets. Our customers are mainly Japanese electronics companies and railway companies.

Our measuring and diagnostic equipment is used mainly in the manufacturing facilities and research and development activities of our customers. This equipment includes:

- equipment for testing emissions from mobile phones;
- equipment for testing noise emissions;
- equipment for testing compliance of electrical circuitry with prescribed standards;
- meteorological and environmental testing equipment for laboratory and field use, including pollution monitoring equipment; and
- equipment for monitoring, testing and evaluating the electromagnetic performance of printed circuit boards and the efficiency of microprocessors.

Real Estate and Other

Our real estate and other operating leases consist primarily of corporate dormitories, office buildings and residential condominiums. We maintain a portfolio of 42 rental dormitories, 34 owned and 8 managed, which we rent to major corporations in Japan for use by their staff. We also own and operate, for rental purposes, office buildings, approximately 1,200 apartment units and a number of other real estate properties, located mainly in or near Tokyo and Osaka.

INTEREST ON LOANS AND INVESTMENT SECURITIES

ORIX earns interest income on the installment loans it makes both in Japan and overseas to individuals and corporations. ORIX also earns interest income on its investments primarily in available-for-sale securities. Interest on loans and investment securities accounted for 15% of our consolidated revenues for fiscal 2005, while installment loans and investment securities made up approximately 47% and 11% of our consolidated operating assets as of March 31, 2005, respectively.

Our consolidated balance sheets figures for the balance of installment loans and investment in securities include the operating assets of our life insurance operations, but our consolidated statements of income figures for interest on loans and investment securities exclude revenues from life insurance operating assets. Income stemming from investment related to the life insurance business, including interest income from insurance-related installment loans and investment securities, gains on the sale of insurance-related investment securities and real estate income related to life insurance operations, is included in life insurance premiums and related investment income in our consolidated statements of income.

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Installment Loans to Consumer Borrowers in Japan

We have three distinct categories of consumer lending in Japan: housing loans, card loans and other lending. We have been providing housing loans since 1980. ORIX Trust and Banking has been originating new housing loans since 1999. We issue a portion of these loans to individuals who purchase real estate for investment purposes and a portion to individuals who purchase real estate for self-occupancy purposes. These loans are mainly secured by first or second mortgages. Our card loans are uncollateralized revolving loans. The other category refers principally to loans made in connection with our securities brokerage operations.

Installment Loans to Corporate Borrowers in Japan

Loans to corporate borrowers in Japan include loans to real estate-related companies, as well as general corporate lending. Corporate lending covers the spectrum of Japanese corporate lending, including loans to the amusement industry, loans to consumer finance companies and loans to the Japanese retail sector. These loans are secured primarily by real estate collateral.

Installment Loans to Overseas Borrowers

Our overseas installment loans include corporate loans in the United States, as well as ship finance out of Hong Kong and Singapore.

Investment in Securities

We maintain a sizable investment in various securities. The largest segment of this portfolio is derived from investments of reserves in our life insurance operations, which constituted approximately 46% of our total investment in securities as of March 31, 2005. The investment in securities related to our life insurance operations is primarily yen-denominated corporate debt. Overseas, we also have substantial holdings in corporate debt in the United States and a substantial portion of the interest income on investment securities is earned on commercial mortgage-backed securities and high yield bonds held in the United States.

BROKERAGE COMMISSIONS AND NET GAINS ON INVESTMENT SECURITIES

All non-interest income and losses (other than foreign currency transaction gains or losses and write-downs of securities) that we recognize on securities held in connection with operations other than life insurance are reflected in our consolidated statements of income as brokerage commissions and net gains on investment securities. These include the brokerage commissions of ORIX Securities and the net gains on sales of securities other than those sold by ORIX Life Insurance. Historically, net gains on investment securities has made up the majority of revenues in this category. Brokerage commissions and net gains on investment securities accounted for 4% of consolidated revenues in fiscal 2005.

LIFE INSURANCE PREMIUMS AND RELATED INVESTMENT INCOME

Life insurance premiums and related investment income are derived from ORIX Life Insurance, which had a total of ¥4,282 billion in insurance contracts in force as of March 31, 2005. Life insurance premiums and related investment income accounted for 15% of consolidated revenues in fiscal 2005. A corresponding expense called life insurance costs includes provisions for reserves and the amortization and other costs associated with the life insurance operations.

Premiums from the sale of life insurance are recorded as life insurance premiums, while interest on loans and investment securities, net gains on the sale of securities, revenues from real estate and other income related to our life insurance operations are included in life insurance-related investment income. For details on the assets and revenues associated with the life insurance-related investment income, see Item 5. Operating and Financial Review and Prospects Results of Operations Details of Operating Results Life insurance premiums and related investment income.

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REAL ESTATE SALES

ORIX Real Estate develops and sells residential condominiums, single-dwelling homes and offices and other commercial buildings in Japan. In fiscal 2005, real estate sales constituted 13% of consolidated revenues. Gross proceeds from the sale of these properties are principally recognized as revenue in our consolidated statements of income when the property is transferred to the buyer with a corresponding expense item called costs of real estate sales .

The assets associated with real estate development are included in inventories, which are not included in operating assets.

GAINS ON SALES OF REAL ESTATE UNDER OPERATING LEASES

Gains on sales of real estate under operating leases were added to our consolidated statements of income in fiscal 2004 due to the increased importance of these gains. The gains recognized in this item refer to the gains on sales of real estate under operating leases in which we continue to provide services, such as integrated facilities management. Gains on the sales of real estate under operating leases made up less than 1% of consolidated revenues for fiscal 2005.

TRANSPORTATION REVENUES

Revenues associated with the operations of Footwork Express Co., Ltd., and the corresponding costs for its calendar reporting year ended December 31, 2004, were included in transportation revenues and costs of transportation revenues, respectively. As a result of a reduction in the Company s ownership interest in Footwork Express Co., Ltd. in December 2004, however, the Company will prospectively record its proportionate share of net income or loss of Footwork Express Co., Ltd. by the equity method. See Item 5. Operating and Financial Review and Prospects Results of Operations Year Ended March 31, 2005 Compared to Year Ended March 31, 2004 Details of Operating Results Revenues, New Business Volumes and Operating Assets Transportation Revenues.

OTHER OPERATING REVENUES

Other operating revenues are generated from a variety of businesses that include commissions for the sale of insurance and other financial products, revenues from loan servicing and integrated facilities management and revenues from golf courses, a training facility and hotels.

The revenues from these operations are recorded on our consolidated statements of income as other operating revenues and made up approximately 15% of consolidated revenues in fiscal 2005. There is also a corresponding expense called other operating expenses.

The assets associated with other operations are other operating assets such as golf courses, a training facility, and hotels, and retail inventories.

PROFILE OF BUSINESS BY SEGMENT

Our reportable segments are based on FASB Statement No. 131. They are identified based on the nature of services for operations in Japan and on geographic area for overseas operations. For discussion of the basis for the breakdown of segments, see Note 30 in Item 18. Financial Statements.

We reclassified our segment information in fiscal 2005. On January 1, 2005, we established a new company called ORIX Auto Corporation for the purpose of integrating seven automobile-related subsidiaries. As a result of this integration, we decided to create a separate segment called Automobile Operations, which includes our

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automobile leasing and rental operations. The automobile leasing portion was previously included in the Corporate Financial Services segment and the automobile rental portion was previously included in the Rental Operations segment. In addition, we previously had separate segments for Europe and Asia and Oceania, but we combined our Europe segment into a new segment called Asia, Oceania and Europe as a result of the downsizing of the business operations in the Europe segment and a review of our management policy. Accordingly, certain amounts in fiscal 2003 and 2004 have been reclassified retroactively to conform to the fiscal 2005 presentation.

The following table shows a breakdown of revenues by segment for the years ended March 31, 2003, 2004 and 2005.

	Years ended March 31,		
	2003	2004	2005
	(In millions of yen)		
Segments in Japan:			
Corporate Financial Services	¥ 82,059	¥ 80,418	¥ 87,708
Automobile Operations	66,215	72,614	89,404
Rental Operations	68,162	73,235	68,447
Real Estate-Related Finance	52,548	56,804	100,567
Real Estate	110,092	148,217	172,728
Life Insurance	138,511	133,391	136,857
Other	61,240	73,987	143,754
Sub-total	578,827	638,666	799,465
Overseas segments:			
The Americas	61,643	50,373	53,084
Asia, Oceania and Europe	75,005	71,176	73,089
Sub-total	136,648	121,549	126,173
Total segment revenues	715,475	760,215	925,638
Reconciliation of segment totals to consolidated amounts	3,415	(3,545)	(8,688)
Total consolidated amounts	¥ 718,890	¥ 756,670	¥ 916,950

BUSINESS SEGMENTS IN JAPAN

Our operations in Japan are conducted by ORIX and a number of our subsidiaries and affiliates. In general, our sales staff in Japan sell the full range of our products, including products of subsidiaries such as ORIX Auto, ORIX Rentec, ORIX Life Insurance and ORIX Facilities Corporation, or ORIX Facilities, which are cross-sold. However, other subsidiaries, such as our real estate subsidiary, serve more specialized functions. Products and services of these subsidiaries are handled by their dedicated sales staff, whose specialized training and experience are required in the markets they serve.

Our main customer base is comprised of small and medium-sized enterprises. However, we have expanded our client base to include large corporations in some business segments, such as the rental of precision measuring equipment, real estate-related finance and automobile leasing.

We have also targeted individual customers as a growth area in various business segments, such as consumer card loans, housing loans, automobile leasing, automobile rentals, life insurance and online securities brokerage.

CORPORATE FINANCIAL SERVICES

Our Corporate Financial Services consist primarily of originating direct financing leases and installment loans to corporate customers and, to a lesser degree, of sales of a variety of financial products and other fee businesses. The activities in this segment are conducted primarily through our four sales headquarters the Tokyo Sales Headquarters, the Kinki (Osaka) Sales Headquarters, the District Sales Headquarters and the OQL Headquarters.

Cross-selling of Financial Solutions

The sales people in our four sales headquarters form the core of our sales and distribution network in Japan. Leasing and lending activities often create the first contact we have with our customers. These activities provide us with the opportunity to get to know our clients, make an assessment of their particular needs, and offer a variety of solutions responding to their varying needs, including leases, loans, life and non-life insurance, investment products and integrated facilities management. As this cross-selling strategy has evolved in recent years, we have attempted to develop capabilities to provide financial solutions that investment banks provide to help companies liquidate assets, merge with other companies or restructure their operations.

AUTOMOBILE OPERATIONS

On January 1, 2005, we consolidated seven subsidiaries into a new single company called ORIX Auto Corporation. We view automobile-related businesses as an important strategic component of our operations and decided to consolidate the various automobile leasing and rental companies into one unified unit in an effort to further develop these operations. The previous seven entities cooperated in the past, but we felt their merger would help increase the synergy among the different units. In addition to reducing administrative costs, we hope to further improve services and increase economies of scale to provide more convenience for our customers and help them reduce their maintenance costs as we aim to be a leading automobile-related services company in Japan.

As of March 31, 2005, we managed approximately 497,000 vehicles in Japan. In addition, we owned approximately 43,000 vehicles in Japan as part of our automobile rental operations.

RENTAL OPERATIONS

The Rental Operations business principally comprises the rental of precision measuring equipment and personal computers to corporate customers. The operations are conducted primarily by ORIX Rentec.

We have developed a strong position in the precision measuring equipment and computer rental sector in Japan through our subsidiary ORIX Rentec, which has an inventory of more than 400,000 units of precision measuring and computer equipment. Our customers include major Japanese and overseas electronics companies. We have also subsidiaries in Singapore, Malaysia and South Korea to provide such services to clients overseas. In addition, we established an equipment rental company in China in August 2004. For a description of the types of equipment leased, see Operating Leases.

We have also recently expanded the services in this segment to include direct financing leases of computers and other IT-related equipment.

REAL ESTATE-RELATED FINANCE

ORIX s Real Estate-Related Finance business encompasses primarily real estate loans to corporate customers and housing loans to individuals. We include most loans to non-real estate business corporate customers in the Corporate Financial Services segment, even when these loans are secured by real estate. ORIX is also expanding its business involving loan servicing, non-recourse loans, commercial mortgage-backed securities, and real estate investment trusts. The activities in this segment are conducted primarily by our Real Estate Finance Headquarters, ORIX Trust and Banking, ORIX Asset Management & Loan Services Corporation, or ORIX Asset Management & Loan Services, and ORIX Asset Management Corporation, or ORIX Asset Management.

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In April 1998, we acquired ORIX Trust and Banking (formerly Yamaichi Trust & Bank, Ltd.). This acquisition provided us with a general banking license, which allows us to accept deposits, and a trust business license. The bank s major operations include the provision of housing loans, including loans to individuals looking to purchase real estate for investment purposes. As of March 31, 2005, ORIX Trust and Banking had deposits of ¥337 billion and housing loans to individuals of ¥357 billion.

The market for real estate finance in Japan has undergone substantial changes since the latter half of the 1990s as a result of deregulation and structural changes in the economy and financial services. Our activities in this area have followed these changes and in recent years our Real Estate Finance Headquarters has focused on non-recourse lending and commercial mortgage-backed securities, while specialist subsidiaries such as ORIX Asset Management & Loan Services and ORIX Asset Management are active in loan servicing and asset management of real estate investment trusts, respectively.

REAL ESTATE

ORIX s Real Estate segment consists of both the development and sale of real estate, as well as the management, operation and maintenance of real estate properties. ORIX Real Estate and ORIX Facilities are our subsidiaries that are primarily responsible for activities in this segment.

We own, operate and provide management services, including tenant and rental income management, for a number of commercial and other properties in Japan, including a corporate training facility, golf courses and hotels. Our real estate development activities cover both residential and commercial property markets in Japan. We sold approximately 3,000 residential apartment units in fiscal 2004 and approximately 2,300 units in fiscal 2005. We have also been involved in the development of commercial facilities and office buildings. The expertise that we have accumulated in the Japanese real estate market over nearly two decades coupled with our financing capabilities allow us to provide one-stop development packages.

LIFE INSURANCE

The Life Insurance segment consists of direct and agency life insurance sales and related activities conducted by ORIX Life Insurance. ORIX Life Insurance traditionally sold its insurance products through agents, including ORIX as well as independent agents, to primarily corporate customers.

In September 1997, ORIX Life Insurance initiated ORIX Direct, which was Japan s first life insurance offered through direct channels. This insurance is sold to retail customers via television and newspaper advertisements, the internet, and other direct channels.

OTHER

The Other segment encompasses consumer card loan operations, venture capital operations, securities transactions, corporate rehabilitation, private finance initiatives and new businesses. The activities in this segment are conducted primarily by ORIX, ORIX Credit, ORIX Capital Corporation, or ORIX Capital, and ORIX Securities.

The consumer card loan operations of ORIX Credit constitute the largest single business in this segment in terms of operating assets. The main product of ORIX Credit is uncollateralized revolving card loans, made through our VIP Loan Card, which targets upper middle income individuals and offers customers, in our opinion, relatively large credit lines at reasonable loan rates along with a great deal of convenience in withdrawing and repaying funds. For example, money can be withdrawn from approximately 140,000 cash dispensers and automated teller machines, or ATMs, throughout Japan, and partnerships have been formed with a number of banks and other financial institutions to allow convenient repayment at about 50,000 ATMs operated by financial institutions throughout Japan. In addition, as part of our card loan business, we established ORIX Credit Guarantee Corporation in October 2004 and this company offers a guarantor s service to regional banks and credit associations that are attempting to expand their consumer finance operations.

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In 1983, we established ORIX Capital to provide venture capital and related consulting services to companies that are potential candidates for initial public offerings in Japan. As of March 31, 2005, ORIX Capital had ¥26,538 million in assets under its management, consisting mainly of equity securities.

ORIX Securities is engaged primarily in equity and other securities brokerage activities. In May 1999, we began to offer ORIX ONLINE, an equity trading service available via telephone and the internet. ORIX Securities has seats on the Tokyo Stock Exchange, the Osaka Securities Exchange, the Nagoya Stock Exchange and the Jasdaq Securities Exchange.

Major affiliates in this segment are The Fuji Fire and Marine Insurance Company Limited, or Fuji Fire and Marine, and DAIKYO INCORPORATED, or DAIKYO. For details of our investment in these companies, see Note 11 in Item 18. Financial Statements.

OVERSEAS BUSINESS SEGMENTS

Since the establishment of our first overseas subsidiary in Hong Kong in 1971, we have competed in selected international markets through subsidiaries and investments in joint ventures as affiliates. As of March 31, 2005, we operated in 22 countries outside Japan through 107 subsidiaries and affiliates. Our overseas operations employ approximately 2,600 employees, and include a network of 224 offices.

THE AMERICAS

ORIX s principal businesses in the Americas segment are direct financing leases, corporate lending, commercial real estate lending including mortgage-backed securities, real estate development and securities investment.

After opening a representative office in 1974, we commenced formal operations in the United States in 1981 when we established a wholly-owned subsidiary, ORIX USA Corporation, or ORIX USA. ORIX USA acts as the holding company for other operations in the United States. In mid-2004, we reorganized by functional component the businesses of ORIX USA and our Americas corporate support staff began to consolidate all activities in the Americas under ORIX USA. The business activities of ORIX USA are now managed and reported under the corporate finance, leasing, real estate and other business units.

Corporate Finance

The Americas corporate finance unit includes the following business activities:

- investment in publicly traded commercial bonds and in bank loans, primarily below investment grade;

direct lending to small and medium-sized enterprises for acquisitions, growth, capital expenditures or working capital;

structured financing for, and leasing of, large-ticket capital equipment and plant and equipment transactions for a wide variety of businesses, and the provision of creative tax and synthetic lease products for the medium to large-ticket market; and

venture finance, which involves the direct origination of secured loans to small companies planning to tap the public securities market in the near future. These transactions typically include warrants for shares in the company at the time of sale or public registration.

Leasing

The Americas leasing unit includes the origination and servicing of commercial equipment leases and the provision of financing for dealers, distributors, national manufacturers and end users throughout the United States.

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Real Estate

The Americas real estate unit includes the following business activities:

- servicing of commercial mortgages both for its own account and for the accounts of third parties, including publicly owned commercial mortgage-backed securities, or CMBS;
- origination and investment in commercial mortgages and real estate-related debt instruments, including CMBSs; and
- acquisition, development and management of commercial properties as a principal, in joint ventures with other developers and for third parties.

Other Businesses

From time to time, ORIX USA provides financing outside of its three main business activities. We characterize these activities as other businesses until they either grow to the status of a new business segment, are logically combined with an existing business segment or an alternate exit strategy is pursued. One such business is municipal leasing, which covers the origination and provision of small to medium-ticket leases for state and local governments and other public enterprises, including schools and hospitals. Revenues from such leases are generally exempt from US taxation. Municipal leases are periodically sold into the market or to other financial institutions.

In addition to our wholly-owned subsidiaries in the United States, we own 27% of Stockton Holdings Limited, or SHL, a company headquartered in Bermuda. SHL, which was engaged in the commodities investment and reinsurance business, began liquidation procedures in March 2005. The contract for commodities investment expired in June 2005 and, while some reinsurance contracts are expected to remain in force, operations are expected to cease after the remaining contracts expire by 2008. We expect to collect most of the investment in SHL in fiscal 2006 and the remainder after all the reinsurance contracts mature.

ASIA, OCEANIA AND EUROPE

Our principal businesses in Asia and Oceania involve primarily direct financing leases, operating leases for transportation equipment and corporate lending.

In 1971, we established our first overseas office in Hong Kong, and had 81 subsidiaries and affiliates in this segment, which includes the Middle East and North Africa, as of March 31, 2005. During the years that we have maintained a presence in Asia, ORIX Asia, based in Hong Kong, has been the base for our expansion and operations in the region. Singapore has been another center for our activity in the region, and we have substantial operations in Australia, Malaysia and Indonesia as well.

Some of the leasing operations that we have developed in Japan are also being developed in markets in this segment. For example, we have specialized automobile leasing operations in countries such as Australia, Indonesia, Singapore, Taiwan, Malaysia, Thailand and Korea. In December 2002, we also made an investment in Korea Life Insurance Co., Ltd., or Korea Life, which is accounted for by the equity method. For details of this investment, see Note 11 in Item 18. Financial Statements.

We have also expanded our activities into and throughout the Middle East and North Africa through our affiliate ORIX Leasing Pakistan Limited.

Our principal businesses in Europe center on aircraft operating leases.

We initiated our activities in Europe in 1974, when we established a liaison office in London. We conduct our current European operations principally through ORIX Ireland Limited, established in 1988 as a finance vehicle for our European operations, ORIX Aviation in Ireland, which has marketing, technical, legal and administrative teams to develop our international aircraft operating lease business, and ORIX Polska S.A., an equipment leasing company in Poland.

DIVISIONS, MAJOR SUBSIDIARIES AND AFFILIATES

A list of major subsidiaries and affiliates can be found in Exhibit 8.1.

CAPITAL EXPENDITURES AND MAJOR M&A ACTIVITIES

We are a financial services company with significant leasing, lending, real estate development and other operations based on investment in tangible assets. As such, we are continually acquiring and developing such assets as part of our business. A detailed discussion of these activities is presented elsewhere in this annual report, including in other parts of Item 4. Information on the Company and in Item 5. Operating and Financial Review and Prospects.

We also have made a number of acquisitions in other companies to expand our operations. Some of our recent acquisitions are described below.

In July 2002, we purchased 90% of the outstanding shares of Nittetsu Lease Co. Ltd., or Nittetsu Lease, for a purchase price of approximately ¥5 billion and 10% of Nittetsu Leasing Auto Co., Ltd., or Nittetsu Leasing Auto, from Nippon Steel Corporation and Nippon Steel Trading Co., Ltd., respectively. Nittetsu Lease also owned shares of Nittetsu Leasing Auto, so our total share of Nittetsu Leasing Auto came to 91%. Nittetsu Lease had total assets with a book value of approximately ¥145 billion as of July 31, 2002. Nittetsu Leasing Auto was merged into ORIX Auto in January 2005.

In December 2002, a consortium including ORIX Corporation, the Hanwha Group, and Macquarie Life Limited acquired 51% of the outstanding shares of Korea Life, which was 100% controlled by the Korean Government.

In March 2003, we acquired a 100% interest in KDDI Development Corporation, or KDDI Development, a real estate company formerly owned by KDDI CORPORATION, for a purchase price of approximately ¥15 billion. KDDI Development had assets of approximately ¥44 billion as of March 31, 2003.

In October 2003, we acquired a 100% interest in JAPAREN Co., Ltd., or JAPAREN, an automobile rental and leasing company, from NIPPON MINING HOLDINGS, INC. At the time of purchase, JAPAREN had assets of approximately ¥18.5 billion. JAPAREN was merged into ORIX Auto in January 2005.

Footwork Express Co., Ltd., or FWE, a company in which we own a 69.2% stake and which is a part of our plan to expand our corporate rehabilitation business, purchased the major assets of a Japanese logistics company, Footwork Logistics Corporation, which filed for bankruptcy in 2001. This company s assets were transferred to FWE in two separate stages in December 2003 and March 2004, respectively.

We initially acquired a 69.2% stake in FWE for approximately ¥3.1 billion. In December 2004, FWE issued new shares to a third party. As a result of the increased influence by this third party over the operations of FWE, we no longer have effective control over FWE and we have recorded the company as an equity method affiliate since the end of March 2005.

In January 2005, we acquired all the shares of Kitakanto Lease Company Limited, or Kitakanto Lease, from the Ashikaga Financial Group. Kitakanto Lease had approximately ¥40 billion in assets at the time of acquisition. The Ashikaga Financial Group purchased 5% of the newly created company, ORIX Kitakanto Corporation, and our stake is 95%.

In March 2005, we acquired an additional 42% of DAIKYO and preferred shares for approximately ¥47 billion. As a result of the acquisition, our stake in the company increased to 44%. In April 2005, we also refinanced approximately ¥32 billion of DAIKYO s debt. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

We have also extended a ¥20 billion loan facility to DAIKYO for the purchase of land for condominium development. The actual extension of credit requires approval by ORIX for each individual transaction. As of June 30, 2005, no credit had been extended as part of this facility.

In general, we seek to expand and deepen our product and service offerings and enhance our financial performance by pursuing acquisition opportunities. Particularly in the current economic market environment in Japan, we believe there are numerous attractive acquisition opportunities. We are continually reviewing acquisition opportunities, and selectively pursuing several such opportunities. We have in the past deployed a significant amount of capital for acquisition activities, and may continue to make selective investment in the future.

PROPERTY, PLANT AND EQUIPMENT

Because our main business is to provide diverse financial services to our clients, we do not own any material factories or facilities that manufacture products. We have no plans to build any factories that manufacture products. However, in November 2002, a subsidiary of ORIX Eco Services signed an agreement to build and operate a waste processing and recycling plant in Saitama Prefecture in Japan. The construction of the plant began in May 2004 and is expected to be completed in the summer of 2006.

The most important facility that we own is an office building in Shiba, Minato-ku, Tokyo with floor space of 19,662 square meters. Although there are presently no material plans to construct or improve facilities, we may build or acquire additional offices or make improvements to existing facilities if we believe the expansion of our business so warrants.

Our operations are generally conducted in leased office space in numerous cities throughout Japan and in other countries in which we operate. We believe our leased office space is suitable and adequate for our needs. We utilize, or plan to utilize in the foreseeable future, substantially all of our leased office space.

We own office buildings, apartment buildings and recreational facilities for our employees with an aggregate value of ¥56,714 million as of March 31, 2005.

SEASONALITY

Our business is not materially affected by seasonality.

RAW MATERIALS

Our business does not depend on the supply of raw materials.

COMPETITION

Our markets are highly competitive and are characterized by competitive factors that vary by product and geographic region. The markets for most of our products are characterized by a large number of competitors. However, in some of our markets, such as automobile leasing and small-ticket leasing, competition is relatively more concentrated. Our competitors include independent and captive leasing and finance companies and

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commercial banks. Some of our competitors have substantial market positions. Many of our competitors are large companies that have substantial capital and marketing resources, and some of these competitors are larger than us and may have access to capital at a lower cost than we do. Competition in Japan and in a number of other geographical markets has increased in recent years because of deregulation and increased liquidity. In addition, many banks in Japan, who during much of the last decade had serious nonperforming loan problems and were thus often unable to increase lending, have made progress in dealing with their nonperforming loan problems. We believe these banks, and their leasing or finance subsidiaries, are attempting to target our core market of small and medium-sized enterprises.

Japan s leasing industry has a small number of independent leasing companies. Many leasing firms are affiliated with banks, trading houses, manufacturers and financial organizations. Furthermore, many of these specialize in specific products, product ranges or geographical regions. We have established a nationwide network and distribute a full range of leasing and other financial products. Similarly, we believe our array of financial products and services, and the seamless way in which they are marketed, make us unique in the Japanese marketplace. The ability to provide one-stop, comprehensive financial solutions through a single sales staff, with cross-selling of our full range of products, gives us competitive advantages. We also believe that the diversification of our operations, products and services allows us to flexibly allocate our resources, expanding resources in or withdrawing resources from our various businesses, depending on market opportunities, profitability and the competitive environment.

Recently, a number of non-Japanese finance companies have established bases in Japan, or are in the process of expanding sales and marketing initiatives. Many of these companies compete with us in specific fields. However, we generally maintain the same competitive advantages over them that we enjoy over many Japanese competitors, namely that we are able to offer a wide range of products and services, not just a simple, discrete leasing product. Furthermore, we believe our extensive network of sales offices and experience in the Japanese marketplace provides us with other advantages over foreign leasing and asset finance firms entering the Japanese marketplace.

While some leasing companies appear to be strategically targeting growth in automobile maintenance leases, we believe the quality and depth of the service we can provide allows us to remain relatively competitive in this business.

In small-ticket leasing we have historically competed more with credit companies than with traditional leasing firms. However, in recent years some traditional leasing firms appear to have sought to expand this business. We have been able to maintain our targeted size in this business, but leasing rates have declined somewhat.

In our rental operations, we believe the number of companies competing in the market for precision measuring equipment rentals is limited because the technical expertise needed to succeed in this business is a substantial barrier to entry for potential competitors. In computer and related rentals, however, competition is more intense than precision measuring equipment rentals as the barriers to entry are lower. In recent years more companies have entered this business, and some competitors are aggressively attempting to expand their operations. We are attempting to maintain our competitiveness in the rental operations by maintaining a wide range of equipment and offering consulting and other services.

Recent consolidation and alliances among life insurance companies in Japan have increased competition within the insurance industry. In particular, competition in the market for medical insurance, a market we expect to grow, has intensified. In addition, as a result of deregulation, Japanese banks are now permitted to sell certain types of insurance directly to individuals. Certain banks are making efforts to expand this business. At present, banks are permitted to sell only limited types of products and we believe the impact on our life insurance operations will be limited. Moreover, we see this ability to market insurance through banks as a possible business opportunity for us, providing ORIX Life Insurance with new sales channels. However, if Japanese banks market

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insurance from life insurers other than ORIX Life Insurance, competition in the life insurance business could increase. Also, if existing Japanese life insurers are acquired by foreign insurers, such foreign insurers would gain access to established networks of sales agents.

In real estate-related finance, we compete with a variety of Japanese and foreign competitors. In the provision of non-recourse loans and other real estate-related loans, our major competitors are Japanese banks, and to a lesser extent, foreign investment banks. In certain sectors of the real estate-related finance market, we face intense competition, especially from Japanese banks. We believe our main strength lies in our ability to accurately analyze assets backing these loans because of our years of experience in both financing as well as developing, operating and managing real estate in Japan. In addition, we have been able to utilize our extensive customer network in Japan to provide such loans to a broad range of customers. However, we cannot be sure that we will be able to compete if our competition provides loans on better terms than we do.

For the purchase and servicing of distressed assets, we compete primarily with foreign investment banks and equity funds, although some Japanese banks and equity funds are also active in this business. In general, competition is strong in this business. Competition for purchasing assets from regional banks has intensified. A major reason for this intensified competition is that more than 90 companies are registered as loan servicing companies and domestic loan servicing companies are competing in bids for asset sales by these regional banks.

For housing loans, we have focused on a particular market niche of loans to individuals that purchase rental properties for investment purposes and loans to individuals that do not otherwise qualify for loans from major banks or the Japanese government s Housing and Loan Corporation. In this field, competitors include only a limited number of non-bank financial institutions and banks. However, more banks are beginning to enter this market and competition has steadily increased. For example, some of the large banks have been very aggressive in this market and are offering loan rates that are lower than ORIX Trust and Banking is prepared to offer. ORIX Trust and Banking is attempting to face this competition by flexibly dealing with a variety of loans such as those to self-employed individuals, who often have a difficulty obtaining bank loans. However, competition from larger banks could have an adverse impact on our housing loan operations in the future.

For condominium developments, we compete with a large number of both small and large Japanese development companies. We have been able to leverage our quick access to funding to reduce the time required to complete developments, and we outsource most of the design, construction and sales promotions. In addition, we have focused on differentiating ourselves from competitors by providing what we believe to be unique designs and functions for each development. We believe we have been able to offer competitively priced condominiums that have attracted buyers, but competition for buyers in the condominium development business is intense and is expected to remain so.

In the market for non-collateralized consumer loans, competition is increasing as a result of the tie ups between major banks and traditional consumer finance companies, as well as the entry into the market of non-traditional companies such as IT companies. We believe the overall market for loans in the 8% to 18% interest range could grow as the banks expand their operations and raise the awareness of the market itself, but we also believe that competition for market share is likely to increase.

REGULATION

ORIX is incorporated under the Japanese Commercial Code and its corporate activities are governed by the Japanese Commercial Code.

There is no specific regulatory regime in Japan which governs the conduct of our direct financing lease and operating lease businesses. Our installment loan business is regulated by the Interest Rate Restriction Law, the Acceptance of Contributions, Money and Interest Law and the

Regulation of Moneylending Business Law and related regulations.

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A number of our group companies including ORIX and ORIX Credit engage in the business of moneylending in Japan. The Moneylending Business Law requires all companies engaged in the moneylending business, whether they are installment finance companies, leasing companies, credit card companies or specialized consumer loan finance companies, to register with the Prime Minister or prefectural governors. As registered moneylenders, our registered companies are regulated by the Financial Services Agency, or the FSA, which has the power to review registered moneylenders operations and inspect their records to monitor compliance with the provisions of the Moneylending Business Law. The FSA has the authority to impose administrative sanctions for non-compliance, including an order to suspend a part or the whole of the business of registered companies, or to cancel their registration as a moneylender. In addition, the FSA is obliged in certain circumstances to cancel moneylending registrations, including upon instances of substantial noncompliance with the law or of noncompliance with certain administrative orders.

A number of our group companies, including each of ORIX, ORIX Real Estate and ORIX Alpha, engage in the real estate business in Japan, which requires a license from the MoLIT or from prefectural governors under the Building Lots and Building Transaction Law for conducting transactions involving land and buildings, including the buying and selling of land or buildings, exchanging land or buildings and acting as an agent for the purchase and sale, exchange or lease of land or buildings.

ORIX Auto in Japan has received permission from the MoLIT to lease and rent vehicles based on the Road Transportation Law.

The insurance industry in Japan is regulated by the FSA under the Insurance Business Law and related regulations. Insurance business may not be carried out without a license from the Prime Minister. There are two kinds of licenses related to insurance businesses: one for life insurance businesses and another for non-life insurance businesses. The same entity cannot obtain both of these licenses, although a consolidated entity may contemporaneously hold interests in a life insurance company and a non-life insurance company. ORIX Life Insurance, as a life insurance company, is prohibited from engaging in any other activity. Insurance solicitation which we conduct is also governed by the Insurance Business Law. Each of ORIX, ORIX Alpha, ORIX Auto and a number of other group companies in Japan is registered as a life insurance agent with the Prime Minister. The FSA has broad regulatory powers over the life insurance business of ORIX Life Insurance, including the authority to grant or, under certain conditions, revoke its operating license and to request information regarding its business or financial condition and conduct onsite inspections of its books and records. ORIX Life Insurance generally must also receive FSA approval for the sale of new products and for new pricing terms. In addition, under the Insurance Business Law regulations, any party attempting to gain voting rights of an insurance company over a certain amount must receive permission from the Prime Minister. ORIX has received such permission as a major shareholder in ORIX Life and Fuji Fire and Marine.

The Securities and Exchange Law of Japan, or the Securities and Exchange Law, applies to the securities industry in Japan. The Securities and Exchange Law regulates both the business activities of securities companies and conduct related to securities transactions. Securities companies must register with the Prime Minister in order to conduct securities business. ORIX Securities is subject to these and other laws and regulations. Entities acting as intermediaries for the sale of securities must register with the Prime Minister. ORIX has made such a registration. In addition, according to the Securities and Exchange Law, any entity that holds over a certain amount of the voting rights of a securities company is considered a major shareholder and must report its holdings to the Prime Minister. Based on this regulation, ORIX has filed a report as the major shareholder of ORIX Securities.

The general banking and trust business, in which our banking subsidiary, ORIX Trust and Banking, is engaged, are also regulated. In general, the Banking Law governs the general banking business and the Trust Law and the Trust Business Law govern the trust business. These businesses may not be carried out without a license from the Prime Minister and are supervised by the FSA. ORIX Trust and Banking has obtained such a license. Entities selling securities in trust must register with the Prime Minister. ORIX Trust and Banking has

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made such a registration and is regulated by the FSA. In addition, under the Banking Law, any entity that attempts to hold more than a certain portion of voting rights of a bank must receive permission from the Prime Minister. ORIX has registered as a major shareholder of ORIX Trust and Banking.

The Law for Special Measures Concerning the Debt Management and Collection Business, or the Servicer Law, which was enacted in 1998, allows corporations meeting certain specified criteria to obtain permission from the Minister of Justice to manage and collect certain assets. ORIX Asset Management & Loan Services has obtained permission under the Servicer Law to carry out such operations.

ORIX Asset Management, our wholly-owned subsidiary, is registered with the Prime Minister under the Laws Concerning Investment Trusts and Investment Corporations, or the Investment Trust Law, as an asset manager for investment trusts and is responsible for the asset management of the real estate investment trust ORIX JREIT. ORIX JREIT is listed on the Tokyo Stock Exchange. In addition, under the Investment Trust Law, any entity possessing voting rights over a certain amount is considered a major shareholder and must report this to the Prime Minister. ORIX has filed such a report as a major shareholder of ORIX Asset Management.

ORIX USA Corporation is incorporated under the laws of the state of Delaware and its corporate activities are governed by the Delaware General Corporations Law.

There is no single U.S. federal regulatory regime governing the conduct of ORIX USA s corporate finance, real estate finance and development, equipment finance, public finance or loan servicing businesses, but these businesses are subject to numerous state and federal laws and regulations. Commercial and real estate loans may be governed by the United States Patriot Act, the Equal Credit Opportunity Act and its Regulation B, the Flood Disaster Protection Act, the National Flood Insurance Reform Act of 1994 and state usury laws. Real estate transactions are also governed by state real property and foreclosure laws. ORIX USA s equipment finance transactions are governed by the Uniform Commercial Code, as adopted by the various states. ORIX USA is registered with or has obtained licenses from various state agencies which regulate the activity of commercial lenders in such states.

In other regions outside of Japan, some of our businesses are also subject to regulation and supervision in the jurisdictions in which they operate.

LEGAL PROCEEDINGS

We are a defendant in various lawsuits arising in the ordinary course of our business. We aggressively manage our pending litigation and assess appropriate responses to lawsuits in light of a number of factors, including potential impact of the actions on the conduct of our operations. In the opinion of management, none of the pending legal matters is expected to have a material adverse effect on our financial condition or results of operations. However, there can be no assurance that an adverse decision in one or more of these lawsuits will not have a material adverse effect.

Item 5. Operating and Financial Review and Prospects

OVERVIEW

The following discussion and analysis provides information that management believes to be relevant to an understanding of our consolidated financial condition and results of operations. This discussion should be read in conjunction with our consolidated financial statements, including the notes thereto, included in this annual report. See Item 18. Financial Statements.

We are engaged principally in financial services businesses, which include leasing and corporate, real estate-related and consumer finance businesses in Japan and in overseas markets, and life insurance in Japan. We also have operations in real estate development and management. We earn our revenues mainly from operating and direct financing leases, interest on loans and investment securities, life insurance premiums, other operating revenues and real estate sales. Our expenses include mainly selling, general and administrative expenses, costs of operating leases, life insurance costs, costs of real estate sales, and other operating expenses. We require funds mainly to purchase equipment for leases, extend loans and invest in securities.

We earn most of our revenues from our operations in Japan. Revenues from overseas operations have also contributed significantly to our operating results in recent periods. Overseas operations generated 16% and 14% of our total revenues in the years ended March 31, 2004 and 2005, respectively. For a discussion of our business by type of revenue and operating asset, and by segment, see Item 4. Information on the Company Profile of Business by Revenues and Operating Assets and Profile of Business by Segment.

We believe that our earnings results over the past three fiscal years, including fiscal 2005, have been influenced by the following three major trends:

- steadily increasing contributions to earnings from asset-based businesses such as leasing and lending;
- fluctuations in contributions from sources such as:
  - investments in life and non-life insurance affiliates;
  - selected equity investments in troubled or distressed companies for the purpose of rehabilitation;
  - gains from the sale or securitization of lease, loan and security assets;
  - gains from the sale of assets such as real estate under operating leases and investment securities; and
  - fluctuations in costs associated with provisions for doubtful receivables and probable loan losses, and the write-down of long-lived assets and securities as a result of changing economic environments and market conditions.

We expect these three trends to continue to influence earnings in the foreseeable future. However, we also believe that our business is inherently subject to rapid and dramatic changes. In the opinion of management, any discussion of trends should be viewed with caution, because those trends can change in a relatively short period of time.

The following is a discussion of trends in fiscal 2005 compared to fiscal 2004 and fiscal 2004 compared to fiscal 2003. Additional details relating to the discussion can be found in the explanation of the individual components of our consolidated financial statements included in this annual report.

In fiscal 2005, operating income rose by 55% to ¥130,957 million, income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes increased by 51% to ¥154,347 million, net income improved by 69% to ¥91,496 million and diluted earnings per share rose by 67% to ¥1,002.18, in each case compared to fiscal 2004. A discussion of fiscal 2005 performance in light of the three trends outlined above follows:

Revenues from operating leases and interest on loans and investment securities rose 9% to ¥181,808 million and 17% to ¥136,035 million, respectively, primarily as a result of an increase in assets.

Brokerage commissions and net gains on investment securities increased 30% as a result of higher net gains on investment securities, and real estate sales increased 26% as a result of the sale of office buildings and other real estate developments. Gains on the securitization of direct financing leases, loans and investment securities totaled ¥12,520 million in fiscal 2005 compared to ¥446 million in fiscal 2004. In addition, equity in net income of affiliates increased 12% and gains on the sales of affiliates was ¥3,347 million compared to a loss of ¥542 million in fiscal 2004.

Provision for doubtful receivables and probable loan losses, write-downs of long-lived assets and write-downs of securities decreased by 20%, 5% and 6%, respectively, as a result of generally better economic conditions in Japan.

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On April 26, 2005, ORIX announced that it expected total revenues for fiscal 2006 to decline, due primarily to the effects of the deconsolidation of Footwork Express Co. Ltd. See Results of Operations Year ended March 31, 2005 compared to year ended March 31, 2004 Details of Operating Results Transportation Revenues.

In fiscal 2004, operating income rose by 127% to ¥84,572 million, income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principles and income taxes increased by 125% to ¥101,954 million, net income improved by 79% to ¥54,020 million and diluted earnings per share rose by 76% to ¥601.46, in each case compared to fiscal 2003. A discussion of fiscal 2004 performance in light of the three trends outlined above follows:

Although revenues from direct financing leases and interest on loans, which are asset-based revenues, showed a small decline compared to fiscal 2003, most of this decline was due to decrease in assets overseas, which declined by 19% to ¥828,683 million in fiscal 2004, and fewer gains on securitizations, which declined by 95% to ¥446 million in fiscal 2004. Revenues in Japan remained stable, while revenues on operating leases, which are also asset-based, in both Japan and overseas increased during the period.

The single largest factor for the increase in earnings was a reduction in write-downs, which comprised write-downs of long-lived assets, write-downs of securities and provisions for doubtful receivables and probable loan losses. The total reduction in expenses related to these three items was ¥52,536 million in fiscal 2004.

Gains on sales of real estate under operating leases rose by ¥5,859 million to ¥9,116 million in fiscal 2004, while net gains on investment securities rose by ¥13,601 million to ¥22,058 million over the same period.

Equity in net income of affiliates rose by 189% to ¥17,924 million in fiscal 2004, due largely to contributions from Korea Life.

We are attempting to build a business portfolio with a focus on balancing profitability, growth and soundness of the company. To achieve this, ROE, ROA, and shareholders equity ratio, which is total shareholders equity divided by total assets, are important management indexes that we use. Our goal is to continue to work to make improvements in these and other areas.

In fiscal 2003 and 2004, management attempted to grow profits without increasing assets. As part of this strategy, we have been working to replace relatively poorly-performing assets with more profitable ones, increase revenues from the sale of real estate such as residential condominiums and office buildings, and increase revenue from businesses such as integrated facilities management. Our strategy has not been to drastically reduce assets. Instead, the goal of our strategy has been to continue to grow earnings per share through improvements in profitability, not only through increases in assets. In fiscal 2005, our return on equity rose to 14.2% from 10.1% and our return on assets improved to 1.56% from 0.93%, respectively, compared to fiscal 2004. This strategy has also facilitated the strengthening of our financial base, as indicated in an increase in our shareholders equity ratio to 12.0% as of March 31, 2005 from 10.0% as of March 31, 2004.

As a result of efforts to replace less profitable assets with more profitable ones, total assets declined 7% and 5%, respectively, in fiscal 2003 and fiscal 2004. However, this trend reversed in fiscal 2005 as we took advantage of a generally better economic environment and increased business opportunities. Total assets as of March 31, 2005 increased 8% and operating assets increased 6% compared to March 31, 2004. As a result of increased demand for loans to corporate borrowers in Japan, the balance of installment loans as of March 31, 2005 rose by ¥151,657 million, or 7%, compared to March 31, 2004. In addition, the balance of operating lease assets rose by ¥82,303 million, primarily reflecting increased real estate assets in Japan.

We seek to continue our basic strategy of growing profits faster than we grow assets for fiscal 2006. Notwithstanding our basic strategy, we continue to maintain a market-responsive approach to investments.

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Pursuant to this approach, as opportunities arise in fiscal 2006 and beyond, we may selectively acquire assets that we believe will contribute to our goal of increasing profits and improving profitability.

Our increased reliance on revenues from asset sales and equity investments may increase the potential for volatility in our earnings. Asset-based revenues, from such sources as spreads on direct-financing leases or installment loans, and revenues from operating leases, continue to form the core of our revenue base. We believe profits from these sources are relatively predictable based on assumed asset levels, interest rates and, to a lesser extent, provisions for doubtful receivables and probable loan losses. However, as the portion of gains from the sale of assets or equity investments increases, the potential for volatility in our earnings may increase, including because the timing of recognition of these gains is often less predictable than gains from asset-based sources due to the increased sensitivity of asset sales and equity investments to market and other conditions beyond our control. In addition, as historical results indicate, our business is susceptible to valuation losses on real estate, investment securities and other tangible and intangible assets.

CRITICAL ACCOUNTING POLICIES

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management s current judgments. Note 1 of the notes to the consolidated financial statements includes a summary of the significant accounting policies used in the preparation of our consolidated financial statements. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimate may differ significantly from management s current judgments. We consider the accounting estimates discussed in this section to be critical accounting estimates for ORIX for two reasons. First, the estimates require us to make assumptions about matters that are highly uncertain at the time the accounting estimate is made. Second, different estimates that we reasonably could have used in the relevant period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the presentation of our financial condition, changes in financial condition or results of operations. We believe the following represents our critical accounting policies.

ALLOWANCE FOR DOUBTFUL RECEIVABLES ON DIRECT FINANCING LEASES AND PROBABLE LOAN LOSSES

The allowance for doubtful receivables on direct financing leases and probable loan losses represents management s estimate of probable losses inherent in the portfolio. This evaluation process is subject to numerous estimates and judgments. The estimate made in determining the allowance for doubtful receivables on direct financing leases and probable loan losses is a critical accounting estimate for all of our segments.

In developing the allowance for doubtful receivables on direct financing leases and probable loan losses, we consider, among other things, the following factors:

- the nature and characteristics of obligors;
- current economic conditions and trends;
- prior charge-off experience;

current delinquencies and delinquency trends;

future cash flows expected to be received from the direct financing lease or loan; and

the value of underlying collateral and guarantees.

In particular, the valuation allowance for large balance non-homogeneous loans is individually evaluated based on the present value of expected future cash flows and the observable market price or the fair value of the collateral securing the loans if the loans are collateral-dependent. The allowance for losses on smaller-balance homogeneous loans, including individual housing loans and card loans which are not restructured, and lease receivables is collectively evaluated considering current economic conditions and trends, the value of the collateral underlying the loans and leases, prior charge-off experience, delinquencies and non-accruals. If actual future economic conditions and trends, actual future value of underlying collateral and guarantees, and actual future cash flows are less favorable than those projected by management or the historical data we use to calculate these estimates do not reflect future loss experience, additional provisions may be required.

The allowance is increased by provisions charged to income and is decreased by charge-offs, net of recoveries. When we determine that the likelihood of any future collection is minimal, receivables are charged off.

We review delinquencies or other transactions which are not in compliance with our internal policies as frequently as three times a month in the case of transactions in Japan. Transactions with payments more than 90 days past due are reported to the executive officer responsible for the Risk Management Headquarters. We stop accruing revenues on direct financing leases and installment loans when principal or interest is past due more than 90 days, or earlier if management determines that it is doubtful that we can collect on direct financing leases and installment loans. The Company and its subsidiaries used 180 days for suspending recognition of income prior to fiscal 2003. This change from 180 to 90 days did not have a significant effect on the Company and its subsidiaries results of operations or financial position. The decision is based on factors such as the general economic environment, individual clients creditworthiness and historical loss experience, delinquencies and accruals. After we have set aside provisions for a non-performing asset, we carefully monitor the quality of any underlying collateral, the status of management of the obligor and other important factors. When we determine that there is little likelihood of continued repayment by the borrower or lessee, we sell the leased equipment or loan collateral, and we record a charge-off for the portion of the lease or loan that remains outstanding.

Our charge-off policy is greatly affected by Japanese tax law, which limits the amount of tax-deductible charge-offs. Japanese tax law allows companies to charge off doubtful receivables on a tax-deductible basis only when specified conditions are met. Japanese tax law does not allow a partial charge-off against the total outstanding receivables to an obligor. Japanese regulations also do not specify a maximum time period after which charge-offs must occur.

It is common in the United States for companies to charge off loans after they are past due for a specific arbitrary period, for example, six months or one year. However, we are required to keep our primary records in accordance with Japanese tax law. Japanese tax law does not allow Japanese companies to adopt a policy similar to that in the United States. If we had prepared our accounting records as if each charge-off had occurred at an arbitrary date, the differences in our financial statements would be a reduction in gross receivables, an identical reduction in the allowance for doubtful receivables and a change in the timing of charge-offs. We believe that the most significant of these differences, when comparing ourselves to other non-Japanese companies (particularly U.S. companies), may be the delay in when we record a charge-off. In a period of worsening economic conditions and increasing delinquencies, we may reflect a lower charge-off ratio than we would have, had we applied the charge-off policies used by some other non-Japanese companies.

IMPAIRMENT OF INVESTMENT IN SECURITIES

We recognize losses related to securities under write-downs of securities in our consolidated statements of income when the market price for a security has declined significantly below the acquisition cost and the decline has been determined to be other than temporary. We would generally charge against income losses related to available-for-sale securities and held-to-maturity securities:

if the market price for a security has for more than six months remained significantly below our acquisition cost, or significantly below the current carrying value if the price of the security has been adjusted in the past;

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if there has been a significant deterioration in a bond issuer s credit rating, an issuer s default or a similar event; or

in certain other situations where, even though the market value of an equity security has not remained significantly below the carrying value for six months, the decline in market value of an equity security is based on an issuer s specific economic conditions and not just general declines in the related market and where it is considered unlikely that the market value of the equity security will recover within the next six months.

Determinations of whether a decline is other than temporary often involve estimating the outcome of future events that are highly uncertain at the time the estimates are made. Management judgment is required in determining whether factors exist that indicate that an impairment loss should be recognized at any balance sheet date. These judgments are based on subjective as well as objective factors. The Japanese stock market has experienced significant volatility during recent years. In view of the diversity and volume of our shareholdings, the declining but volatile equity markets make it difficult to determine whether the declines are other than temporary. This accounting estimate primarily affects our domestic life insurance and other segments as well as all of our overseas segments and securities held by ORIX that are not allocated to individual segments.

If the financial condition of issuers deteriorates, the forecasted performance of an investee is not met or actual market conditions are less favorable than those projected by management, we may charge to income additional losses on investment in securities.

Prior to the quarter ended March 31, 2003, we had generally concluded that a significant decline in the market value of marketable securities was other than temporary, and thus should be charged against current earnings, when the market price of the security remained significantly below the carrying value for one year. There were certain cases in which the decline was determined to be other than temporary even though the decline below carrying value had persisted for less than one year. However, for the assessment as of March 31, 2003, we concluded that the sudden and severe decline in the Japanese equity benchmark index as well as other economic factors indicated that it was appropriate to use a shorter period in making the determination. As a result, as of March 31, 2003, we have revised our procedure such that, in general, a significant decline of the market value below the carrying value for a period exceeding six months is considered to be an other than temporary decline and charged to current earnings. We estimate that this revision resulted in an additional charge, on a pretax basis, of ¥1.7 billion during the quarter ended March 31, 2003 as compared to the charge that would have been recorded had the one-year period been applied.

IMPAIRMENT OF LONG-LIVED ASSETS AND IDENTIFIABLE INTANGIBLE ASSETS

We periodically perform an impairment review for long-lived assets and identifiable intangible assets whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The accounting estimates relating to these assets affect all segments. Factors we consider important which could trigger an impairment review include, but are not limited to, the following:

significant decline in the market value of an asset;

a current period operating cash flow loss, except for the starting period of the operation;

significant underperformance compared to historical or projected operating cash flows;

significant changes in the manner of the use of an asset; and

significant negative industry or economic trends.

When we determine that the value of assets may not be recoverable based upon the existence of one or more of the above factors or other factors, we estimate the future cash flows expected to be generated by the assets. Our estimates of the future cash flows are based upon historical trends adjusted to reflect our best estimate of future market and operating conditions. Also, our estimates include the expected future period in which the future

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cash flows are expected to be generated by the assets that we review for impairment. As a result of the impairment review, when the sum of the future undiscounted cash flows expected to be generated by the assets is less than the carrying amount of the assets, we determine impairment based on the fair value of those assets.

If the asset is considered impaired, an impairment charge is recorded for the amount by which the carrying amount of the asset exceeds fair value. We determine fair value based on appraisals prepared by independent third party appraisers or our own staff of appraisers, based on recent transactions involving sales of similar assets, or other valuation techniques to estimate fair value. If actual market and operating conditions under which assets are operated are less favorable than those projected by management, resulting in lower expected future cash flows or shorter expected future periods to generate such cash flows, additional impairment charges may be required. In addition, changes in estimates resulting in lower fair values due to unanticipated changes in business or operating assumptions could adversely affect the valuations of long-lived assets and identifiable intangible assets.

UNGUARANTEED RESIDUAL VALUE FOR DIRECT FINANCING LEASES AND OPERATING LEASES

We estimate unguaranteed residual values of leased equipment when we calculate unearned lease income to be recognized as income over the lease term for direct financing leases and when we calculate depreciation amounts for operating leases which carry inherently higher obsolescence and resale risks. Our estimates are based upon current market values of used equipment and estimates of when and how much equipment will become obsolete. If actual future demand for re-lease or actual market conditions of used equipment is less favorable than that projected by management, write-downs of unguaranteed residual value may be required.

The accounting estimates relating to unguaranteed residual value for direct financing leases and operating leases affect our Corporate Financial Services, Automobile Operations and Rental Operations segments and all of our overseas segments. We did not record any write-downs of unguaranteed residual value in fiscal 2004 or fiscal 2005.

INSURANCE POLICY LIABILITIES AND DEFERRED POLICY ACQUISITION COSTS

A subsidiary of ORIX writes life insurance policies to customers. Those policies are characterized as long-duration policies and mainly consist of endowments, term life insurance, whole life and medical insurance. Insurance policy liabilities and reserves are established based on actuarial estimates of the amount of future policyholder benefits. Computation of policy liabilities and reserves necessarily includes assumptions about mortality, lapse rates and future yields on related investments and others factors applicable at the time the policies are written. Management continually evaluates the potential for changes in the estimates and assumptions applied for determining policy liabilities, both positive and negative, and uses the results of these evaluations both to adjust recorded liabilities and to adjust underwriting criteria and product offerings. If actual assumption data, such as mortality, lapse rates, investment returns and other factors, do not properly reflect future policyholder benefits, we may establish a premium deficiency reserve.

FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises , requires insurance companies to defer certain costs associated with writing insurance, or deferred policy acquisition costs, and amortized over the respective policy periods in proportion to anticipated premium revenue. Deferred policy acquisition costs, not involving the same level of complexity in measurement as those discussed above, are important to an understanding of significant accounting policies for the insurance business. We are required to assess deferred acquisition costs for recoverability. Deferred acquisition costs are the costs related to the acquisition of new and renewal insurance policies and consist primarily of first-year commissions in excess of recurring policy maintenance costs and certain variable costs and expenses for underwriting policies. Periodically, deferred policy acquisition costs are reviewed for whether relevant insurance and investment income are expected to recover the unamortized balance of the deferred acquisition costs. When such costs are expected to be unrecoverable, they are charged to income in that period. If the historical data, such as lapse rates, investment returns, mortality experience, expense margins and surrender charges, which we use to calculate these assumptions do not properly reflect future profitability, additional amortization may be required.

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The accounting estimates relating to insurance policy liabilities and deferred policy acquisition costs affect our life insurance segment.

PENSION PLANS

The determination of our projected benefit obligation and expense for our employee pension benefits is mainly dependent on the size of the employee population, actuarial assumptions, expected long-term rate of return on plan assets and the discount rate used in the accounting.

Pension expense is directly related to the number of employees covered by the plans. Increased employment through internal growth or acquisition would result in increased pension expense.

In estimating the projected benefit obligation, actuaries make assumptions regarding mortality rates, turnover rates, retirement rates, disability rates and rates of compensation increases. In accordance with FASB Statement No. 87, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, impact expense and the recorded obligations in future periods.

We determine the expected return on plan assets annually based on the composition of the pension asset portfolios at the beginning of the plan year and the expected long-term rate of return on these portfolios. The expected long-term rate of return is designed to approximate the long-term rate of return actually earned on the plans assets over time to ensure that funds are available to meet the pension obligations that result from the services provided by employees. We use a number of factors to determine the reasonableness of the expected rate of return, including actual historical returns on the asset classes of the plans portfolios and independent projections of returns of the various asset classes.

We use March 31 as a measurement date for our pension assets and projected benefit obligation balances. If we were to assume a 1% increase or decrease in the expected long-term rate of return, holding the discount rate and other actuarial assumptions constant, pension expense would decrease or increase, respectively, by approximately ¥652 million.

Discount rates are used to determine the present value of our future pension obligations. The discount rates are reflective of rates available on long-term, high-quality fixed-income debt instruments. Discount rates are determined annually on the measurement date.

If we were to assume a 1% increase in the discount rate, and keep the expected long-term rate of return and other actuarial assumptions constant, pension expense would decrease by approximately ¥924 million. If we were to assume a 1% decrease in the discount rate, and keep other assumptions constant, pension expense would increase by approximately ¥1,079 million. The decrease to pension expense based on a 1% increase in discount rate differs from the increase to pension expense based on a 1% decrease in discount rate due to a 10% corridor.

While we believe the estimates and assumptions used in our pension accounting are appropriate, differences in actual results or changes in these assumption or estimates could adversely affect our pension obligations and future expense.

In June 2001, the Japanese pension law was amended to permit an employer to elect to transfer the entire substitutional portion of benefit obligation from the employees pension fund, or EPF, to the government together with a specified amount of plan assets determined pursuant to a government formula. In fiscal 2004, we received government approval of exemption from the obligation for benefits related to future employee service with respect to the substitutional portion of our EPF. In fiscal 2005, we received government approval of exemption from the obligation for benefits related to past employee service with respect to the substitutional portion of our EPF and transferred the benefit obligation of the substitutional portion as well as the related government-specified portion of plan assets of the EPF to the government. We accounted for the transfer to the

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Japanese government of a substitutional portion of an EPF in fiscal 2005 in accordance with EITF Issue No. 03-2, or EITF 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities. As specified in EITF 03-2, the entire separation process was to be accounted for at the time of completion of the transfer to the government of the benefit obligation and related plan assets as a settlement in accordance with FASB Statement No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits. As a result of the completion of the transfer, we recognized a gain on a subsidy from the Japanese government of ¥12,425 million, a gain on the reversal of retirement benefit liabilities as a result of derecognition of previously accrued salary progression at the time of settlement for the substitutional portion of ¥2,618 million, and a loss of ¥14,470 million to liquidate the plan, which mainly included amortization of unrecognized actuarial loss. The net impact of the above was a gain of ¥573 million, which was recorded as a reduction in selling, general and administrative expenses in the consolidated statement of income.

INCOME TAXES

In preparing our consolidated financial statements we made estimates relating to income taxes of ORIX and our consolidated subsidiaries in each of the jurisdictions in which we operate. The process involves estimating our actual current income tax position together with assessing temporary differences resulting from different treatment of items for income tax reporting and financial accounting and reporting purposes. Such differences result in deferred income tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred income tax assets will be recovered from future taxable income, and to the extent we believe that recovery is not more likely than not, we must establish a valuation allowance. When we establish a valuation allowance or increase this allowance during a period, we must include an expense within the income tax provision in the consolidated statements of income.

Significant management judgment is required in determining our provision for income taxes, deferred income tax assets and liabilities and any valuation allowance recorded against our net deferred income tax assets. We have recorded a valuation allowance due to uncertainties about our ability to utilize certain deferred income tax assets, primarily certain net operating loss carry-forwards, before they expire. Although utilization of the net operating loss carry-forwards is not assured, management believes it is more likely than not that all of the deferred income tax assets, net of the valuation allowance, will be realized. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred income tax assets will be recoverable. In the event that actual results differ from these estimates or if we adjust these estimates in future periods, we may need to establish additional valuation allowances, which could materially impact our consolidated financial position and results of operations.

A deferred tax liability has not been recognized for undistributed earnings of certain overseas subsidiaries as it is our intention to permanently reinvest those earnings. The deferred tax liability will be recognized when we are no longer able to demonstrate that we plan to permanently reinvest undistributed earnings. Accordingly, no provision has been made for foreign withholding taxes or Japanese income taxes, which would become payable if the undistributed earnings were paid as dividends to us.

DISCUSSION WITH AND REVIEW BY THE AUDIT COMMITTEE

Our management has discussed the development and selection of each critical accounting estimate with our Audit Committee in June 2005.

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RESULTS OF OPERATIONS

YEAR ENDED MARCH 31, 2005 COMPARED TO YEAR ENDED MARCH 31, 2004

Performance Summary

Income Statement Data

	Year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Income statement data:				
Total revenues	¥ 756,670	¥ 916,950	¥ 160,280	21
Total expenses	672,098	785,993	113,895	17
Operating income	84,572	130,957	46,385	55
Income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes	101,954	154,347	52,393	51
Net income	54,020	91,496	37,476	69

Total Revenues

	Year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Total revenues:				
Direct financing leases	¥ 112,372	¥ 113,514	¥ 1,142	1
Operating leases	166,587	181,808	15,221	9
Interest on loans and investment securities	116,744	136,035	19,291	17
Brokerage commissions and net gains on investment securities	26,025	33,906	7,881	30
Life insurance premiums and related investment income	134,154	137,004	2,850	2
Real estate sales	98,034	123,162	25,128	26
Gains on sales of real estate under operating leases	9,116	1,554	(7,562)	(83)
Transportation revenues		55,339	55,339	
Other operating revenues	93,638	134,628	40,990	44
Total	¥ 756,670	¥ 916,950	¥ 160,280	21

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Total revenues in fiscal 2005 increased 21%. Although revenues from gains on sales of real estate under operating leases decreased, revenues in other lines increased, especially in transportation revenues and other operating revenues. Details of each line item are explained below.

Total Expenses

	Year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Total expenses:				
Interest expense	¥ 60,060	¥ 56,562	¥ (3,498)	(6)
Costs of operating leases	120,566	124,658	4,092	3
Life insurance costs	119,653	122,896	3,243	3
Costs of real estate sales	88,679	113,830	25,151	28
Costs of transportation revenues		46,594	46,594	
Other operating expenses	52,551	82,833	30,282	58
Selling, general and administrative expenses	161,835	181,620	19,785	12
Provision for doubtful receivables and probable loan losses	49,592	39,574	(10,018)	(20)
Write-downs of long-lived assets	12,345	11,713	(632)	(5)
Write-downs of securities	5,240	4,930	(310)	(6)
Foreign currency transaction loss, net	1,577	783	(794)	(50)
Total	¥ 672,098	¥ 785,993	¥ 113,895	17

Total expenses in fiscal 2005 increased 17%. The most significant increases were in costs of transportation revenues and other operating expenses. Details of each line item are explained below.

Operating Income, Income before Discontinued Operations, Extraordinary Gain, Cumulative Effect of a Change in Accounting Principle and Income Taxes and Net Income

Operating income in fiscal 2005 increased 55% due primarily to increased revenues from interest on loans and investment securities, including gains from securitization, increased net gains on investment securities and a decline in provisions for doubtful receivables and probable loan losses. Income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes increased 51% due primarily to the increase in operating income, increased equity in net income of affiliates and gains on the sales of affiliates.

Net income in fiscal 2005 increased 69%, which was greater than the increase for income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes primarily due to a decrease in the effective tax rate. For details, see Note 15 of Item 18. Financial Statements. Basic earnings from continuing operations per share were ¥603.58 and ¥1,016.78 for fiscal 2004 and fiscal 2005, respectively. Basic and diluted earnings per share in fiscal 2004 were ¥645.52 and ¥601.46, respectively, compared to ¥1,087.82 and ¥1,002.18 in fiscal 2005.

Operating Assets

	As of March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Operating assets:				
Investment in direct financing leases	¥ 1,453,575	¥ 1,451,574	¥ (2,001)	(0)
Installment loans	2,234,940	2,386,597	151,657	7
Investment in operating leases	536,702	619,005	82,303	15
Investment in securities	551,928	589,271	37,343	7
Other operating assets	72,049	82,651	10,602	15
Total operating assets	4,849,194	5,129,098	279,904	6
Allowance for doubtful receivables on direct financing leases and probable loan losses	(128,020)	(115,250)	12,770	(10)
Other assets	903,783	1,055,105	151,322	17
Total assets	¥ 5,624,957	¥ 6,068,953	¥ 443,996	8

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Operating assets increased 6% in fiscal 2005 due primarily to an increase in installment loans and operating leases in Japan. Total assets increased 8%, which was higher than the increase in operating assets, due primarily to an increase in investment in affiliates.

Details of Operating Results

The following is a discussion of items in the consolidated statements of income, operating assets in the consolidated balance sheets and other selected financial information. See Item 4. Information on the Company for a profile of each of the categories discussed below.

Revenues, New Business Volumes and Operating Assets

Direct financing leases

	As of and for the year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Direct financing leases:				
Direct financing lease revenues	¥ 112,372	¥ 113,514	¥ 1,142	1
Japan	86,928	90,141	3,213	4
Overseas	25,444	23,373	(2,071)	(8)
New receivables added	¥ 801,787	¥ 863,137	¥ 61,350	8
Japan	618,452	700,744	82,292	13
Overseas	183,335	162,393	(20,942)	(11)
New equipment acquisitions	¥ 713,240	¥ 767,672	¥ 54,432	8
Japan	541,917	607,290	65,373	12
Overseas	171,323	160,382	(10,941)	(6)
Investment in direct financing leases	¥ 1,453,575	¥ 1,451,574	¥ (2,001)	(0)
Japan	1,183,187	1,183,791	604	0
Overseas	270,388	267,783	(2,605)	(1)

Revenues from direct financing leases in fiscal 2005 increased 1%. Revenues from Japanese operations increased 4% in fiscal 2005 due primarily to an increase in gains on securitization of direct financing leases. Revenues from overseas operations declined by 8% in fiscal 2005 due primarily to a decline in assets.

The average return we charge on direct financing leases in Japan, calculated on the basis of quarterly balances, in fiscal 2005 was 6.54% compared to 6.36% in fiscal 2004. This was due primarily to an increase in the proportion of revenues contributed by automobile leases, which normally generate higher returns than general equipment leases. The average return on overseas direct financing leases, calculated on the basis of quarterly balances, increased to 8.63% in fiscal 2005 from 8.18% in fiscal 2004, due primarily to higher leasing rates we charged in the United States corresponding to the higher prevailing market interest rates there.

New receivables added related to direct financing leases increased 8% in fiscal 2005. New receivables added by Japanese operations increased 13% in fiscal 2005 due primarily to the acquisition of Kitakanto Lease and an increase in our automobile leasing operations, while new receivables added by overseas operations decreased 11% in fiscal 2005 due primarily to decreases in the United States.

Investment in direct financing leases as of March 31, 2005 remained flat. While our automobile operations increased assets in Japan, this increase was offset by securitization of lease receivables.

As of March 31, 2005, no single lessee represented more than 1% of our total portfolio of direct finance leases. As of March 31, 2005, 82% of our direct financing leases were to lessees located in Japan, while 7% were to lessees located in the United States.

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	As of March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Investment in direct financing leases by category:				
Information-related and office equipment	¥ 210,713	¥ 184,540	¥ (26,173)	(12)
Industrial equipment	214,682	206,182	(8,500)	(4)
Commercial services equipment	175,607	190,353	14,746	8
Transportation equipment	479,605	486,329	6,724	1
Other equipment	372,968	384,170	11,202	3
Total	¥ 1,453,575	¥ 1,451,574	¥ (2,001)	(0)

Investment in direct financing leases of information-related and office equipment decreased 12% in fiscal 2005 due primarily to declines in Japan.

Investment in direct financing leases of industrial equipment decreased 4% in fiscal 2005 due primarily to declines in the volume of leasing assets in the United States.

Investment in direct financing leases of commercial services equipment increased 8% in fiscal 2005 due primarily to the acquisition of Kitakanto Lease.

Balances for investment in direct financing leases in the tables above do not include lease assets sold on securitization. However, gains from securitization are included in our direct financing lease revenues. During fiscal 2005, we sold on securitization ¥97,177 million of direct financing lease assets (all of which were in Japan) that were treated as off-balance sheet assets, and during fiscal 2004, we sold on securitization ¥26,284 million of direct financing lease assets (¥16,672 million in Japan and ¥9,612 million overseas) that were treated as off-balance sheet assets. Gains from the securitization of these assets of ¥170 million and ¥3,877 million were included in direct financing lease revenues for fiscal 2004 and 2005, respectively. The balance of direct financing lease assets treated as off-balance sheet assets amounted to ¥200,434 million as of March 31, 2004 and ¥179,905 million as of March 31, 2005. If assets sold on securitization are included, the total balance of investment in direct financing lease assets would be ¥1,654,009 million as of March 31, 2004 and ¥1,631,479 million as of March 31, 2005. For more information on securitization, see Note 9 of Item 18. Financial Statements.

Asset quality of our direct financing leases

	As of March 31,		
	2003	2004	2005
	(In millions of yen, except percentage data)		
Past due direct financing leases and allowances for direct financing leases:			
90+ days past due direct financing leases	¥ 47,825	¥ 36,568	¥ 25,733

90+ days past due direct financing leases as a percentage of the balance of investment in direct financing leases	3.04%	2.52%	1.77%
Provisions as a percentage of average balance of investment in direct financing leases (1)	1.04%	0.87%	0.40%
Allowance for direct financing leases	¥ 42,588	¥ 41,008	¥ 36,264
Allowance for direct financing leases as a percentage of the balance of investment in direct financing leases	2.71%	2.82%	2.50%

(1) Average balances are calculated on the basis of fiscal quarter-end balances.

The decrease in 90+ days past due direct financing leases occurred due primarily to charge-offs and a decline in new 90+ days past due direct financing leases in Japan and overseas due primarily to improving economic conditions.

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We believe that the ratio of allowance for doubtful receivables as a percentage of the balance of investment in direct financing leases was adequate as of March 31, 2005 for the following reasons:

- lease receivables are generally diversified and the amount of realized loss on any particular contract is likely to be relatively small; and

- all lease contracts are collateralized by the underlying leased equipment, and we can expect to recover at least a portion of the outstanding lease receivables by selling the underlying equipment.

The ratio of charge-offs as a percentage of the average balance of investment in direct financing leases was 1.55%, 0.90% and 0.73% for fiscal 2003, 2004 and 2005, respectively. We recognize that, due to our charge-off policy, historical ratios of charge-offs as a percentage of the balance of our investment in direct financing leases might have been lower than if we had taken charge-offs after they were past due for a specific arbitrary period.

Operating leases

	As of and for the year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Operating leases:				
Operating lease revenues	¥ 166,587	¥ 181,808	¥ 15,221	9
Japan	123,199	136,258	13,059	11
Overseas	43,388	45,550	2,162	5
New equipment acquisitions	¥ 189,737	¥ 248,327	¥ 58,590	31
Japan	144,340	201,764	57,424	40
Overseas	45,397	46,563	1,166	3
Investment in operating leases	¥ 536,702	¥ 619,005	¥ 82,303	15
Japan	388,452	466,489	78,037	20
Overseas	148,250	152,516	4,266	3

Revenues from operating leases increased 9% in fiscal 2005 due primarily to increased revenues from automobile operating leases in Japan. In fiscal 2004 and 2005, gains from the disposition of operating lease assets other than real estate were ¥2,783 million and ¥4,746 million, respectively and are included in operating lease revenues.

New equipment acquisitions of operating leases increased 31% in fiscal 2005 due primarily to an increase in the purchase of rental purpose real estate in Japan.

Investment in operating leases increased 15% in fiscal 2005. In Japan, these investments rose 20% due primarily to an increase in rental purpose real estate.

	As of March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Investment in operating leases by category:				
Transportation equipment	¥ 202,514	¥ 241,468	¥ 38,954	19
Measuring equipment and personal computers	75,232	64,850	(10,382)	(14)
Real estate and other	258,956	312,687	53,731	21
Total	¥ 536,702	¥ 619,005	¥ 82,303	15

Investment in transportation equipment-related operating leases rose by 19% in fiscal 2005 due primarily to increases in automobile operating leases, while investments in real estate and other operating leases increased

21% due primarily to increases in Japan. Measuring equipment and personal computers decreased 14%, due primarily to customer requests for direct financing leases rather than operating leases for some equipment.

For information on the acquisition cost and accumulated depreciation of operating lease assets, see Note 5 in Item 18. Financial Statements.

Installment loans and investment securities

Installment loans

	As of and for the year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Installment loans:				
Interest on installment loans	¥ 107,490	¥ 125,898	¥ 18,408	17
Japan	89,295	108,706	19,411	22
Overseas	18,195	17,192	(1,003)	(6)
New loans added	¥ 1,124,276	¥ 1,545,517	¥ 421,241	37
Japan	957,646	1,394,494	436,848	46
Overseas	166,630	151,023	(15,607)	(9)
Installment loans	¥ 2,234,940	¥ 2,386,597	¥ 151,657	7
Japan	1,984,416	2,153,949	169,533	9
Overseas	250,524	232,648	(17,876)	(7)

Interest on installment loans increased 17% in fiscal 2005. Revenues from interest on installment loans in Japan increased 22% due primarily to a higher level of assets, increased collections in our loan servicing operations and gains from securitization. Interest on overseas installment loans decreased 6% in fiscal 2005 primarily as a result of a reduced amount of assets.

The average interest rate earned on loans in Japan, calculated on the basis of quarterly balances, increased to 4.83% in fiscal 2005 from 4.73% in fiscal 2004 due primarily to higher interest rates earned on our consumer card loans. The average interest rate earned on overseas loans, calculated on the basis of quarterly balances, increased to 7.40% in fiscal 2005 from 5.86% in fiscal 2004 due primarily to a rise in market interest rates prevailing in the United States.

New loans added increased 37% in fiscal 2005 due primarily to an increase in loans to corporate borrowers in Japan.

The balance of installment loans as of the year ended March 31, 2005 increased 7% compared to the balance as of March 31, 2004. The balance of installment loans for borrowers in Japan rose by 9% due primarily to increased loans to corporate borrowers, while the balance of installment loans for overseas borrowers decreased 7% due primarily to loan collection in Asia, Oceania and Europe.

As of March 31, 2005, 90% of our installment loans were to borrowers in Japan, while 5% were to borrowers in the United States.

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The table below sets forth the balances as of March 31, 2004 and 2005 of our installment loans to borrowers in Japan and overseas, categorized by the type of borrower (i.e., consumer or corporate) in the case of borrowers in Japan. As of March 31, 2005, ¥133,125 million, or 6%, of our portfolio of installment loans to corporate borrowers in Japan related to our life insurance operations. We reflected income from these loans in our consolidated statements of income as life insurance premiums and related investment income.

	As of March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Installment loans:				
Consumer borrowers in Japan				
Housing loans	¥ 504,386	¥ 507,250	¥ 2,864	1
Card loans	247,598	228,505	(19,093)	(8)
Other	54,634	75,353	20,719	38
Subtotal	806,618	811,108	4,490	1
Corporate borrowers in Japan				
Real estate-related companies	310,847	369,083	58,236	19
Commercial and industrial companies	850,539	960,500	109,961	13
Subtotal	1,161,386	1,329,583	168,197	14
Total (Japan)	1,968,004	2,140,691	172,687	9
Overseas corporate, industrial and other borrowers	250,460	233,263	(17,197)	(7)
Loan origination costs, net	16,476	12,643	(3,833)	(23)
Total	¥ 2,234,940	¥ 2,386,597	¥ 151,657	7

As of March 31, 2005, ¥399,191 million, or 17% of all installment loans was outstanding to real estate-related companies and construction companies. Of these loans, ¥24,477 million, or 1%, were classified as impaired loans in accordance with FASB Statement No. 114. We allocated an allowance of ¥12,528 million to these impaired loans. The remaining outstanding balance represents performing loans or the portion of loans secured by collateral. As of March 31, 2005, we had installment loans outstanding in the amount of ¥258,757 million, or 11% of all installment loans, to companies in the entertainment industry. Of this amount, ¥13,229 million, or 1%, was classified as impaired loans in accordance with FASB Statement No. 114. We allocated an allowance of ¥4,238 million to these impaired loans. The remaining outstanding balance represents performing loans or the portion of loans secured by collateral.

The balance of loans to consumer borrowers in Japan as of March 31, 2005 remained relatively flat at ¥811,108 million. As a result of an increase in personal bankruptcies in Japan in recent years, we have been cautious about expanding card loans and we have been actively collecting outstanding loans that we believe have deteriorated in terms of credit quality. Housing loans continued to grow, but the balance remained flat because some loans were securitized.

The balance of loans to corporate borrowers in Japan as of March 31, 2005 rose by 14%, compared to the balance as of March 31, 2004, due primarily to increased demand from corporate borrowers.

Balances of installment loans in the tables above do not include assets sold on securitization. However, the amount of interest on installment loans includes gains from the securitization of installment loans. We sold on securitization ¥9,250 million and ¥58,184 million in installment loans, which were treated as off-balance sheet assets in fiscal 2004 and 2005, respectively. Gains from the securitization of loans of ¥276 million and ¥2,115 million were included in interest on installment loans in fiscal 2004 and 2005, respectively. The balance of installment loans treated as off-balance sheet assets amounted to ¥139,509 million and ¥171,295 million as of March 31, 2004 and 2005, respectively. If loans sold on securitization were included, the total balance of

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installment loans would be ¥2,374,449 million and ¥2,557,892 million as of March 31, 2004 and 2005, respectively. For more information on securitization, see Note 9 in Item 18. Financial Statements.

Asset quality of our installment loans

We classify past due installment loans into two categories: installment loans considered impaired in accordance with FASB Statement No. 114 and 90+ days past due loans not covered by FASB Statement No. 114.

	As of and for the year ended March 31,		
	2003	2004	2005
	(In millions of yen)		
Loans considered impaired in accordance with FASB Statement No. 114:			
Impaired loans	¥ 97,278	¥ 93,542	¥ 86,021
Impaired loans requiring a valuation allowance	63,975	72,033	67,745
Valuation allowance (1)	36,073	39,187	35,150

(1) The valuation allowance is individually evaluated based on the present value of expected future cash flows and the observable market price or the fair value of the collateral securing the loans if the loans are collateral dependent.

In fiscal 2005, a charge-off of impaired loans amounting to ¥21,809 million resulted in a decrease in the outstanding balances of impaired loans as of March 31, 2005. In fiscal 2004, the charge-off of impaired loans amounted to ¥12,688 million.

The table below sets forth the outstanding balances of impaired loans by region and type of borrower. Consumer loans in Japan primarily consist of restructured smaller-balance homogeneous loans accounted for in accordance with FASB Statement No. 114. Such loans increased in fiscal 2004 and fiscal 2005 due to a greater number of personal bankruptcies and legal actions that included debt restructuring.

	As of March 31,		
	2003	2004	2005
	(In millions of yen)		
Impaired loans:			
Consumer borrowers in Japan	¥ 965	¥ 6,638	¥ 10,204
Subtotal	965	6,638	10,204
Corporate borrowers in Japan			
Real estate-related companies	27,508	22,274	21,126
Commercial and industrial companies	59,578	58,311	49,480

Subtotal	87,086	80,585	70,606
Overseas corporate, industrial and other borrowers	9,227	6,319	5,211
Total	¥ 97,278	¥ 93,542	¥ 86,021

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The table below sets forth information as to past-due loans and allowance for installment loans, excluding amounts covered by FASB Statement No. 114. Average balances are calculated on the basis of fiscal quarter-end balances.

	As of March 31,		
	2003	2004	2005
	(In millions of yen, except percentage data)		
Past-due loans and allowance for installment loans:			
90+ days past due loans not covered by FASB Statement No. 114	¥ 60,587	¥ 43,176	¥ 26,945
90+ days past due loans not covered by FASB Statement No. 114 as a percentage of the balance of installment loans not covered by FASB Statement No. 114	2.77%	2.02%	1.17%
Provisions as a percentage of average balance of installment loans	1.06%	0.93%	0.73%
Allowance for probable loan losses not covered by FASB Statement No. 114	¥ 54,485	¥ 47,825	¥ 43,836
Allowance for probable loan losses not covered by FASB Statement No. 114 as a percentage of the balance of installment loans not covered by FASB Statement No. 114	2.49%	2.23%	1.91%

The balance of 90+ days past due loans not covered by FASB Statement No. 114 declined by 38% in fiscal 2005, principally due to charge-offs of ¥20,163 million in fiscal 2005.

	As of March 31,		
	2003	2004	2005
	(In millions of yen)		
90+ days past due loans not covered by FASB Statement No. 114:			
Consumer borrowers in Japan			
Housing loans	¥ 49,098	¥ 37,764	¥ 22,906
Card loans and other	6,963	4,709	3,468
Corporate borrowers in Japan			
Real estate-related companies	390		
Commercial and industrial companies	1,414		
Overseas corporate, industrial and other borrowers	2,722	703	571
Total	¥ 60,587	¥ 43,176	¥ 26,945

The majority of these past-due loans were housing loans to consumers in Japan secured by collateral (mostly first mortgages) for which we received partial payments. We make provisions against losses for these homogenous loans by way of general reserves for installment loans included in the allowance for doubtful receivables. We make allowance for housing loans in Japan after careful evaluation of the value of collateral underlying the loans, past loss experience and any economic conditions that we believe may affect the default rate.

We determine the allowance for our card loans and other items on the basis of past loss experience, general economic conditions and the current portfolio composition.

We believe that the level of the allowance as of March 31, 2005 was adequate because we expect to recover a portion of the outstanding balance for 90+ days past-due loans not covered by FASB Statement No. 114 primarily because most 90+ days past due loans are housing loans, which are ordinarily made to a diverse group of individuals whom we believe generally have a higher credit rating than the population at-large and which are ordinarily secured by first or second mortgages.

The ratio of charge-offs as a percentage of the average balance of installment loans was 1.24%, 1.20% and 0.92% for fiscal 2003, 2004 and 2005, respectively. We recognize that, due to our charge-off policy, historical

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ratios of charge-offs as a percentage of the balance of our investment in installment loans might have been lower than if we had taken charge-offs after they were past due for a specific arbitrary period.

Investment securities

We maintain a sizable investment in various securities. The largest segment of this portfolio is the investments by our life insurance operations. This constituted approximately 46% of our total investment in securities as of March 31, 2005. These instruments are generally invested in yen-denominated corporate debt. Corporate debt securities consist primarily of fixed interest rate instruments. Our portfolio included investments by our US operations in high yield debt securities, totaling ¥52,819 million, and in commercial mortgage-backed securities, totaling of ¥55,670 million, each as of March 31, 2005.

	As of March 31, 2004		
	Life insurance	Other operations	Total
	(In millions of yen)		
Investment securities:			
Fixed income securities	¥ 193,384	¥ 137,868	¥ 331,252
Marketable equity securities	238	55,307	55,545
Other securities	38,187	126,944	165,131
Total	¥ 231,809	¥ 320,119	¥ 551,928

	As of March 31, 2005		
	Life insurance	Other operations	Total
	(In millions of yen)		
Investment securities:			
Fixed income securities	¥ 230,221	¥ 106,272	¥ 336,493
Marketable equity securities	2,079	51,970	54,049
Other securities	41,336	157,393	198,729
Total	¥ 273,636	¥ 315,635	¥ 589,271

The balance of our investments in securities other than in connection with our life insurance operations decreased to ¥315,635 million as of March 31, 2005 from ¥320,119 million as of March 31, 2004. While other securities increased due to increased investments in securities that are not available for sale, the increase was offset by a decline in commercial mortgage-backed securities in the United States due to the sale and securitization of certain assets. We present income from investments in separate lines of our consolidated statements of income, depending upon the type of security and whether the security is held in connection with our life insurance operations.

Interest we earn on fixed income securities, and on interest-earning securities classified as other securities held in connection with operations other than life insurance, is reflected in our consolidated statements of income as interest on loans and investment securities. All other non-interest income and losses (other than foreign currency transaction gains or losses and write-downs of securities) we recognize on securities held in connection with operations other than life insurance are reflected in our consolidated statements of income as brokerage commissions and net gains on investment securities. All income and losses (other than write-downs of securities) we recognize on securities held in connection with life insurance operations are reflected in our consolidated statements of income as life insurance premiums and related investment income.

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	As of and for the year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Investment securities:				
Interest on investment securities	¥ 9,254	¥ 10,137	¥ 883	10
Japan	885	1,181	296	33
Overseas	8,369	8,956	587	7
New securities added	¥ 122,066	¥ 244,600	¥ 122,534	100
Japan	100,912	230,810	129,898	129
Overseas	21,154	13,790	(7,364)	(35)
Investment in securities	¥ 551,928	¥ 589,271	¥ 37,343	7
Japan	399,463	467,562	68,099	17
Overseas	152,465	121,709	(30,756)	(20)

Interest on investment securities other than those held in connection with our life insurance operations increased 10% in fiscal 2005 due primarily to a higher balance of high-yield bonds in the United States and a higher balance of securities in Japan. The average interest rate earned on investment securities in Japan, calculated on the basis of quarterly balances, was 1.45% in fiscal 2005 compared to 1.39% in fiscal 2004. Rates remained relatively flat due primarily to the stagnant situation in prevailing market interest rates in Japan. The average interest rate earned on overseas investment securities, calculated on the basis of quarterly balances, increased to 6.72% in fiscal 2005 from 6.33% in fiscal 2004 due primarily to a rise in prevailing market interest rates in the United States.

New securities added increased 100% in fiscal 2005. New securities added in Japan increased 129% due mainly to the replacement of some of the assets at our life insurance operations. New securities added overseas decreased 35% due primarily to declines in the United States.

The balance of our investment in securities as of March 31, 2005 increased 7% compared to fiscal 2004. The balance of our investment in securities in Japan increased 17% due primarily to increases in our life insurance operations, while the balance of our investment in securities overseas decreased 20% due primarily to the re-securitization of securities in the United States.

	As of March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Investment in securities by security type:				
Trading securities	¥ 26,354	¥ 47,784	¥ 21,430	81
Available-for-sale securities	386,797	390,542	3,745	1
Other securities	138,777	150,945	12,168	9
Total	¥ 551,928	¥ 589,271	¥ 37,343	7

Investments in trading securities increased 81% in fiscal 2005 due primarily to increased investments in trading securities in the United States. Other securities increased due primarily to an increase in our life insurance operations.

The above table does not include assets sold on securitization. We sold on securitization ¥24,760 million of investment securities which were treated as off-balance sheet assets in fiscal 2005. No such securitizations were made in fiscal 2004. Gains from the securitization of investment securities of ¥6,528 million were included in net gains on investment securities in fiscal 2005. If investment securities sold on securitization were included, the total balance of investment securities would be ¥551,928 million and ¥614,031 million as of March 31, 2004 and 2005, respectively. For more information on securitization, see Note 9 in Item 18. Financial Statements.

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For further information on investment in securities, see Note 8 of Item 18. Financial Statements.

Brokerage commissions and net gains on investment securities

All non-interest income and losses (other than foreign currency transaction gains or losses and write-downs of securities) that we recognize on securities held in connection with operations other than life insurance are reflected in our consolidated statements of income as brokerage commissions and net gains on investment securities.

	Year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Brokerage commissions and net gains on investment securities:				
Brokerage commissions	¥ 3,967	¥ 4,516	¥ 549	14
Net gains on investment securities	22,058	29,390	7,332	33
Total	¥ 26,025	¥ 33,906	¥ 7,881	30

Brokerage commissions and net gains on investment securities increased 30% in fiscal 2005. Our brokerage commissions increased 14% due primarily to increased activity in the Japanese stock market, while net gains on investment securities increased 33% due primarily to increased net gains on the sale and securitization of commercial mortgage-backed securities in the United States and venture capital operations in Japan.

As of March 31, 2005, gross unrealized gains on available-for-sale securities, including those held in connection with our life insurance operations, were ¥51,627 million, compared to ¥46,830 million as of March 31, 2004. As of March 31, 2005, gross unrealized losses on available-for-sale securities, including those held in connection with our life insurance operations, were ¥4,724 million, compared to ¥7,672 million as of March 31, 2004. These unrealized gains increased, and unrealized losses decreased, due primarily to an increase in unrealized gains on commercial mortgage-backed securities in the United States and a decline in unrealized losses in our life insurance operations in Japan.

Life insurance premiums and related investment income

We reflect all income and losses (other than write-downs of securities and provision for doubtful receivables and probable loan losses) that we recognize on securities, installment loans and other investments held in connection with life insurance operations in our consolidated statements of income as life insurance premiums and related investment income.

	Year ended March 31,		Change	
	2004	2005	Amount	Percent (%)

	(In millions of yen, except percentage data)			
Life insurance premiums and related investment income:				
Life insurance premiums	¥ 119,458	¥ 125,806	¥ 6,348	5
Life insurance-related investment income	14,696	11,198	(3,498)	(24)
Total	¥ 134,154	¥ 137,004	¥ 2,850	2

Life insurance premiums and related investment income increased 2% in fiscal 2005 compared to fiscal 2004. Life insurance premiums of ORIX Life Insurance increased by 5% due primarily to the increased sale of term life insurance products. Life insurance-related investment income decreased 24% in fiscal 2005 due primarily to lower interest on loans.

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	Year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Investments by ORIX Life Insurance:				
Fixed income securities	¥ 193,384	¥ 230,221	¥ 36,837	19
Marketable equity securities	238	2,079	1,841	774
Other securities	38,187	41,336	3,149	8
Total investment in securities	231,809	273,636	41,827	18
Installment loans and other investments	350,664	293,387	(57,277)	(16)
Total	¥ 582,473	¥ 567,023	¥ (15,450)	(3)

Fixed income securities in fiscal 2005 increased 19%, while installment loans and other investments decreased 16%, due primarily to an adjustment in our investment portfolio.

	Year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Breakdown of life insurance-related investment income:				
Net gains (losses) on investment securities	¥ (589)	¥ (36)	¥ 553	(94)
Interest on loans and investment securities, and others	15,285	11,234	(4,051)	(27)
Total	¥ 14,696	¥ 11,198	¥ (3,498)	(24)

For further information on life insurance operations, see Note 21 of Item 18. Financial Statements.

Real estate sales

	Year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Real estate sales:				
Real estate sales	¥ 98,034	¥ 123,162	¥ 25,128	26

Revenues from real estate sales in fiscal 2005 increased 26%. While there was a reduction in the number of condominiums sold to buyers, and some of the residential condominiums developed through certain joint ventures were accounted for by the equity method and were included as a net of revenues and selling costs in equity in net income of affiliates in the consolidated statements of income, the revenues associated with the sale of office buildings and other real estate developments made a contribution. Revenues from the aforementioned joint ventures were ¥12,464 million and are not included in real estate sales.

Revenues from the sales of residential condominiums, which were previously included in a line item called residential condominium sales, and office buildings and other real estate developments have been included in real estate sales from fiscal 2005. Revenues from office buildings and other real estate developments that were sold in fiscal 2005 amounted to ¥49,569 million. All revenues from residential condominium sales come from Japan.

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Gains on sales of real estate under operating leases

	Year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Gains on sales of real estate under operating leases:				
Gains on sales of real estate under operating leases	¥ 9,116	¥ 1,554	¥ (7,562)	(83)
Japan	8,871	1,554	(7,317)	(82)
Overseas	245		(245)	

Gains on sales of real estate under operating leases decreased 83% due primarily to a decline in real estate operating leases that were sold but were not included in discontinued operations. Gains recognized under this item refer to gains on sales of real estate under operating leases for which properties we have a significant continuing involvement after sale. Gains for which properties we do not continue to provide services are included in discontinued operations.

Transportation revenues

Transportation revenues related to Footwork Express Co., Ltd., or FWE, were ¥55,339 million in fiscal 2005. Although the acquisition of the company occurred in December 2003, transportation revenues were not recorded in fiscal 2004 year due to the recording of income on a one-quarter lag basis.

Our share in FWE was reduced in December 2004 due to an increase in capital whereby the substantive participating rights of a minority shareholder were increased. As a result, we no longer have a controlling financial interest in FWE, and we included our investment in this company in investment in affiliates on the consolidated balance sheet as of March 31, 2005.

The operating results of FWE for a 12-month period have been included in the consolidated statement of income in fiscal 2005 based on its calendar reporting year ended December 31, 2004 and are reported in the income statement as transportation revenues and costs of transportation revenues. As a result of the reduction in our ownership interest in FWE, we will prospectively record our proportionate share of net income or loss of FWE by the equity method.

Other operations

As of and for the year ended March 31,		Change	
2004	2005	Amount	Percent (%)

	(In millions of yen, except percentage data)			
Other operations:				
Other operating revenues	¥ 93,638	¥ 134,628	¥ 40,990	44
Japan	83,283	123,942	40,659	49
Overseas	10,355	10,686	331	3
Other operating assets	¥ 72,049	¥ 82,651	¥ 10,602	15
Japan	64,993	75,156	10,163	16
Overseas	7,056	7,495	439	6

Other operating revenues in fiscal 2005 increased 44%, due primarily to the increase in revenues associated with our integrated facilities management operations and fee businesses (mainly loan servicing fees and arrangement fees) in Japan. In addition, companies in which we invested as part of our corporate rehabilitation business in the second half of the previous fiscal year and this fiscal year made larger contributions compared to the previous fiscal year.

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Expenses

Interest expense

Interest expense decreased 6% in fiscal 2005, primarily as a result of the lower average debt levels overseas. Based on segment information, interest expense in overseas segments was ¥23,686 million in fiscal 2005 and ¥26,421 million in fiscal 2004.

The average interest rate on our short-term and long-term debt in Japan, calculated on the basis of quarterly balances, was 1.03% in fiscal 2005, compared to 1.04% in fiscal 2004. The average interest rate on our short-term and long-term overseas debt, calculated on the basis of quarterly balances, increased to 4.25% in fiscal 2005 from 4.14% in fiscal 2004 due to higher interest rates overseas.

Costs of operating leases

Costs of operating leases increased 3% due primarily to the increase in operating assets compared to the previous fiscal year. In addition, depreciation and various expenses such as insurance, property tax and other, associated with operating lease assets have been included in costs of operating leases from fiscal 2005 and reclassified retroactively.

Life insurance costs

In line with an increase in life insurance premiums, life insurance costs in fiscal 2005 increased 3%. Margins declined to 10% in fiscal 2005 compared with 11% in fiscal 2004 due primarily to a decline in related investment income.

Costs of real estate sales

Costs of real estate sales for fiscal 2005 increased 28% corresponding to increased revenues from real estate sales during the same period. Margins declined to 8% in fiscal 2005 from 10% in fiscal 2004 due primarily to the recording of relatively higher advertising cost of sales in fiscal 2005. Costs of real estate sales associated with joint ventures accounted for by the equity method were ¥10,846 million in fiscal 2005.

The costs related to the sale of residential condominiums, which were included in costs of residential condominium sales, and the costs of office buildings and other real estate developments have been included in costs of real estate sales from fiscal 2005. The costs of office buildings and other real estate developments that were sold in fiscal 2005 were ¥46,323 million.

Other operating expenses

Other operating expenses increased 58% corresponding to increased other operating revenues.

Selling, general and administrative expenses

	Year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Selling, general and administrative expenses:				
Personnel expenses	¥ 79,083	¥ 87,656	¥ 8,573	11
Selling expenses	25,268	29,848	4,580	18
Administrative expenses	53,692	59,952	6,260	12
Depreciation of office facilities	3,792	4,164	372	10
Total	¥ 161,835	¥ 181,620	¥ 19,785	12

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Employee salaries and other personnel expenses account for approximately half of selling, general and administrative expenses, and the remaining half consists of general overhead expenses such as rent for office spaces, communication expenses and travel expenses. Selling, general and administrative expenses in fiscal 2005 increased 12% primarily due to the costs, which were included from the beginning of fiscal 2005, associated with an increase in consolidated companies in the second half of fiscal 2004 and the further costs associated with the increase in consolidated companies in fiscal 2005.

Provision for doubtful receivables and probable loan losses

We make provisions for doubtful receivables and probable loan losses for direct financing leases and installment loans. The provision for doubtful receivables and probable loan losses in fiscal 2005 decreased 20%. Provisions for direct financing leases declined 57% and provisions for loans not covered by FASB Statement No. 114 decreased 21% due primarily to improved asset quality in Japan and overseas. Provisions for loans covered by FASB Statement No. 114 increased 11% due primarily to sales of impaired loans.

	Year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Provision for doubtful receivables on direct financing leases and probable loan losses:				
Beginning balance	¥ 133,146	¥ 128,020	¥ (5,126)	(4)
Direct financing leases	42,588	41,008	(1,580)	(4)
Loans not covered by FASB Statement No. 114	54,485	47,825	(6,660)	(12)
FASB Statement No. 114 impaired loans	36,073	39,187	3,114	9
Provisions charged to income	¥ 49,592	¥ 39,574	¥ (10,018)	(20)
Direct financing leases	13,397	5,818	(7,579)	(57)
Loans not covered by FASB Statement No. 114	20,118	15,937	(4,181)	(21)
FASB Statement No. 114 impaired loans	16,077	17,819	1,742	11
Charge-offs (net)	¥ (52,579)	¥ (52,650)	¥ (71)	0
Direct financing leases	(13,921)	(10,678)	3,243	(23)
Loans not covered by FASB Statement No. 114	(25,970)	(20,163)	5,807	(22)
FASB Statement No. 114 impaired loans	(12,688)	(21,809)	(9,121)	72
Other (1)	¥ (2,139)	¥ 306	¥ 2,445	
Direct financing leases	(1,056)	116	1,172	
Loans not covered by FASB Statement No. 114	(808)	237	1,045	
FASB Statement No. 114 impaired loans	(275)	(47)	228	(83)
Ending balance	¥ 128,020	¥ 115,250	¥ (12,770)	(10)
Direct financing leases	41,008	36,264	(4,744)	(12)
Loans not covered by FASB Statement No. 114	47,825	43,836	(3,989)	(8)
FASB Statement No. 114 impaired loans	39,187	35,150	(4,037)	(10)

(1) Other includes foreign currency translation adjustments and the effect of acquisitions.

Write-downs of long-lived assets

In accordance with FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we wrote down ¥9,834 million in real estate assets in Japan and ¥1,879 million overseas in fiscal 2005. The properties written down in fiscal 2005 included land in Japan, which was reclassified from a corporate asset to an operating asset, and a commercial complex in the United States.

In accordance with FASB Statement No. 144, an asset is generally deemed to be impaired if the sum of future cash flows is expected to be less than the current carrying value of the asset. If an asset is deemed to be impaired, the value of the asset is written down to estimated fair value. The requirements of FASB Statement No. 144 potentially result in large charges being recorded in a given period as a result of relatively smaller changes in estimated future cash flows. An asset is generally not considered to be impaired so long as its undiscounted estimated future cash flows exceed its carrying value. However, once the undiscounted estimated cash flows are believed to be less than the current carrying value, the asset is written down to estimated fair value (which is in principle the appraised value). A write-down to estimated fair value prior to a determination of impairment is not permitted.

Our total investment in long-lived assets as of March 31, 2005 was ¥713,475 million. Of this, ¥547,024 million were located in Japan and ¥166,451 million were located overseas. Of the long-lived assets in Japan, ¥206,426 million were in the real estate segment. While FASB Statement No. 144 applies to all of our long-lived assets, we believe that there is a higher probability of further write-downs in the real estate segment than in other segments due to the asset deflation that has continued to adversely impact real estate prices and rental rates for over ten years in Japan. For discussion of these write-downs, including the details of the types of assets and the amounts that were written down, see Note 23 of Item 18. Financial Statements. For a breakdown of long-lived assets by segment, see Note 30 of Item 18. Financial Statements.

Write-downs of securities

In fiscal 2005, write-downs of securities declined 6% due primarily to improved debt and equity markets in Japan and the United States.

Foreign currency transaction loss, net

We recognized a foreign currency transaction net loss in the amount of ¥783 million in fiscal 2005, due primarily to appreciation of the euro against the dollar. For information on the impact of foreign currency fluctuations, see Item 11. Qualitative and Quantitative Disclosures about Market Risk.

Equity in net income of affiliates

Equity in net income of affiliates in fiscal 2005 increased 12% due primarily to increased contributions from affiliates in Japan.

A change in South Korean tax rules in May 2003 will enable Korea Life to apply certain historical losses to reduce future taxable income. As a result of this change, Korea Life recorded a tax benefit in earnings and a corresponding deferred tax asset in fiscal 2004.

We plan to sell a portion of our interest in Korea Life in the future. However, no definitive agreement of sale has been arranged. The increase in the carrying value of our ownership interest in Korea Life resulting from our recording of the above deferred tax asset recognition will not necessarily cause a corresponding increase in the fair value of our equity interest in Korea Life in the event of a sale to a third party. We may be unable to sell a portion of Korea Life at or above the carrying value of our investment at the time of sale, if at all. In such event, we will record a loss on the sale in the period in which a definitive agreement of sale is arranged.

For discussion of investment in affiliates, see Note 11 of Item 18. Financial Statements.

Gains (losses) on sales of affiliates

Gains (losses) on sales of affiliates in fiscal 2005 was a net gain of ¥3,347 million primarily as a result of a gain made on the sale of our stake in a consumer finance affiliate. For discussion of investment in affiliates, see Note 11 of Item 18. Financial Statements.

Provision for income taxes

Provision for income taxes in fiscal 2005 increased 34% due primarily to the increase in income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes. In addition, a deferred tax liability of ¥5,855 million was recognized because we determined not to permanently reinvest undistributed earnings of certain foreign subsidiaries. For discussion of income taxes, see Note 15 in Item 18. Financial Statements.

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Discontinued operations

The item discontinued operations was added to our consolidated statements of income in fiscal 2004 because we sold or held for sale real estate properties which we considered to be discontinued operations. We base disclosure of these transactions on FASB Statement No. 144. Under FASB Statement No. 144, the scope of discontinued operations is broadened to include operating results of any component of an entity with its own identifiable cash flow and in which asset we will cease to have significant continuing involvement. Discontinued operations refer to net income from the sale or disposal by sale of real estate under an operating lease in which we no longer have significant continuing involvement. Income from discontinued operations, net of applicable tax effect, increased 106% due primarily to an increase of real estate assets sold in Japan. For a discussion of discontinued operations, see Note 24 of Item 18. Financial Statements.

Extraordinary gain, net of applicable tax effect

No extraordinary gain was recorded in fiscal 2005.

Cumulative effect of a change in accounting principle

No cumulative effect of a change in accounting principle was recorded in fiscal 2005.

Segment Information

The following discussion presents segment financial information on a basis in which such information is currently used regularly by management for evaluating the performance of our business segments and deciding how to allocate resources between them. The reporting segments are identified based on the nature of services for operations in Japan and based on geographic areas for overseas operations. For a description of segments, see Item 4. Information on the Company Profile of Business by Segment. See Note 30 in Item 18. Financial Statements, for additional segment information, a discussion of how we prepare our segment information and the reconciliation of segment totals to consolidated financial statement amounts.

Segments in Japan accounted for 79% of total segment profit in fiscal 2004 and in fiscal 2005. As of March 31, 2005, ¥4,590,036 million, or 84%, of total segment assets were in Japan.

Segments overseas accounted for 21% of total segment profits in fiscal 2004 and in fiscal 2005. As of March 31, 2005, ¥403,399 million, or 7%, of total segment assets were in the Americas, and ¥498,855 million, or 9%, were in Asia, Oceania and Europe.

We reclassified certain operations in fiscal 2005. A new segment called Automobile Operations was created as a result of the integration of seven automobile leasing and rental subsidiaries into one company. On the other hand, we combined the former Europe segment into the Asia, Oceania and Europe segment, due to a change of administration of these operations. For a discussion of these changes see Item 4 and Note 30 of Item 18. Financial Statements.

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	Year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Segment revenues:				
Business segments in Japan				
Corporate Financial Services	¥ 80,418	¥ 87,708	¥ 7,290	9
Automobile Operations	72,614	89,404	16,790	23
Rental Operations	73,235	68,447	(4,788)	(7)
Real Estate-Related Finance	56,804	100,567	43,763	77
Real estate	148,217	172,728	24,511	17
Life insurance	133,391	136,857	3,466	3
Other	73,987	143,754	69,767	94
Subtotal	638,666	799,465	160,799	25
Overseas business segments				
The Americas	50,373	53,084	2,711	5
Asia, Oceania and Europe	71,176	73,089	1,913	3
Subtotal	121,549	126,173	4,624	4
Total	760,215	925,638	165,423	22
Reconciliation of segment totals to consolidated amounts	(3,545)	(8,688)	(5,143)	145
Total consolidated revenues	¥ 756,670	¥ 916,950	¥ 160,280	21

	Year ended March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Segment profit: (1)				
Business segments in Japan				
Corporate Financial Services	¥ 27,150	¥ 43,848	¥ 16,698	62
Automobile Operations	17,921	21,088	3,167	18
Rental Operations	8,058	9,384	1,326	16
Real Estate-Related Finance	18,102	22,269	4,167	23
Real estate	6,244	15,546	9,302	149
Life insurance	5,382	7,223	1,841	34
Other	10,079	20,970	10,891	108
Subtotal	92,936	140,328	47,392	51
Overseas business segments				
The Americas	7,601	15,621	8,020	106
Asia, Oceania and Europe	16,596	22,133	5,537	33
Subtotal	24,197	37,754	13,557	56
Total segment profit (loss)	117,133	178,082	60,949	52

Reconciliation of segment totals to consolidated amounts	(15,179)	(23,735)	(8,556)	56
Total consolidated income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes	¥ 101,954	¥ 154,347	¥ 52,393	51

(1) We believe transactions involving discontinued operations are part of our regular real estate operations and are therefore included in segment profits under segment information.

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	As of March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Segment assets:				
Business segments in Japan				
Corporate Financial Services	¥ 1,416,117	¥ 1,506,311	¥ 90,194	6
Automobile Operations	418,412	451,715	33,303	8
Rental Operations	119,388	118,427	(961)	(1)
Real Estate-Related Finance	909,019	1,106,548	197,529	22
Real estate	309,558	350,254	40,696	13
Life insurance	582,473	567,023	(15,450)	(3)
Other	412,505	489,758	77,253	19
Subtotal	4,167,472	4,590,036	422,564	10
Overseas business segments				
The Americas	472,595	403,399	(69,196)	(15)
Asia, Oceania and Europe	469,675	498,855	29,180	6
Subtotal	942,270	902,254	(40,016)	(4)
Total	5,109,742	5,492,290	382,548	7
Reconciliation of segment totals to consolidated amounts	515,215	576,663	61,448	12
Total consolidated assets	¥ 5,624,957	¥ 6,068,953	¥ 443,996	8

Business Segments in Japan

Corporate Financial Services

Segment revenues increased 9% to ¥87,708 million as loans to corporate customers expanded and direct financing leases made an increased contribution due to the recognition of gains from securitization.

Segment profits increased 62% to ¥43,848 million due primarily to increased revenues and lower provision for doubtful receivables and probable loan losses, which were ¥10,529 million in fiscal 2005 compared to ¥16,009 million in the previous fiscal year, as a result of a reduction in the level of non-performing assets.

Segment assets increased 6% from March 31, 2004 to ¥1,506,311 million at March 31, 2005 due mainly to an increase in loans to corporate customers and the direct financing leases associated with ORIX Kitakanto Corporation, which we acquired in January 2005.

Automobile Operations

Segment revenues increased 23% to ¥89,404 million due primarily to increased revenues from automobile maintenance leases in addition to increased revenues associated with the acquisition in October 2003 of JAPAREN Co. Ltd. (merged into ORIX Auto Corporation on January 1, 2005), which contributed to revenues from April of fiscal 2005 rather than from October of the previous fiscal year.

Segment profits increased 18% to ¥21,088 million due primarily to the increase in revenues.

Segment assets increased 8% on March 31, 2004 to ¥451,715 million, as we continued to place emphasis on automobile-related operations.

Rental Operations

Segment revenues decreased 7% to ¥68,447 million due to an increase in the ratio of direct financing lease transactions, which are recorded as net amounts, compared with operating lease transactions in which revenues and expenses are recorded separately.

Segment profits increased 16% to ¥9,384 million due primarily to strong performance of IT-related equipment direct financing lease transactions.

Segment assets at March 31, 2005 declined 1% to ¥118,427 million compared to March 31, 2004.

Real Estate-Related Finance

Segment revenues increased 77% to ¥100,567 million. Revenues associated with corporate loans, including non-recourse loans, and housing loans increased. In addition, loan servicing operations, which include servicing fees, made a larger contribution to revenues compared to the previous fiscal year.

Despite an increase in provision for doubtful receivables and probable loan losses due to the sale of certain non-performing assets, profits increased 23% to ¥22,269 million due primarily to the increase in revenues.

Segment assets at March 31, 2005 increased 22% to ¥1,106,548 million compared to March 31, 2004 due primarily to an increase in corporate loans.

Real Estate

Segment revenues increased 17% to ¥172,728 million. While sales of residential condominiums declined from fiscal 2004 to fiscal 2005, the sale of office buildings and other real estate developments and revenues associated with our integrated facilities management operations increased.

Segment profits increased 149% to ¥15,546 million compared to ¥6,244 million in the previous fiscal year due in large part to lower write-downs of long-lived assets, which were ¥1,318 million in fiscal 2005 compared to ¥8,052 million in fiscal 2004.

Segment assets at March 31, 2005 increased 13% as compared to March 31, 2004, to ¥350,254 million.

Life Insurance

Segment revenues increased 3% to ¥136,857 million due primarily to an increase in the number of new contracts.

Segment profits increased 34% to ¥7,223 million, as our efforts to focus on more profitable products over the past few years began to have an impact on earnings, while we also recorded gains on the sale of affiliates of ¥1,406 million, whereas no such gains were recorded in fiscal 2004.

Segment assets declined 3% to ¥567,023 million compared to March 31, 2004 due primarily to the maturity of endowment products sold in the past that resulted in more assets than our other products.

Other

Segment revenues increased 94% to ¥143,754 million. The contribution from the consumer card loan operations decreased as a result of a stricter credit screening process that led to a lower average loan balance and consequent lower interest revenues on loans. However, net gains on investment securities increased at our venture capital operations and brokerage commissions expanded at our securities brokerage due to the high trading volume on the stock market. In addition, we recorded ¥55,339 million in transportation revenues from a consolidated subsidiary FWE. We expect no revenues from this company going forward as it has been classified as an equity method affiliate. For details of this classification, see Item 5, Transportation Revenues.

Segment profits increased 108% to ¥20,970 million as provision for doubtful receivables and probable loan losses associated with our card loan operations decreased to ¥9,971 million in fiscal 2005 compared to ¥16,729 million in fiscal 2004, while equity in net income of affiliates and gains on sales of affiliates increased to ¥11,511 million in fiscal 2005 compared to ¥3,144 million in fiscal 2004.

Segment assets at March 31, 2005 increased 19% to ¥489,758 million compared to March 31, 2004. The level of loans associated with our card loan operations declined, while investment in equity method affiliates including DAIKYO increased.

Overseas Business Segments

The Americas

Segment revenues increased 5% to ¥53,084 million. While revenues from direct financing leases and interest on loans to corporate customers declined due primarily to lower average assets and the appreciation of the yen against the dollar, gains on the resecuritization of CMBS and other real estate-related operations contributed to revenues.

Segment profits increased 106% to ¥15,621 million despite the loss associated with an equity method affiliate, due to gains from the sale and securitization of CMBS and other securities, as well as a decrease in the provision for doubtful receivables and probable loan losses.

Segment assets decreased 15% from March 31, 2004 to ¥403,399 million due to a decrease in the balance of investment in securities and direct financing leases.

Asia, Oceania and Europe

Segment revenues increased 3% from fiscal 2004 to fiscal 2005, to ¥73,089 million. Automobile leasing and corporate lending in the region performed steadily, while ship-related operations expanded.

Segment profits increased 33% to ¥22,133 million due primarily to increased revenues despite the decrease in equity in net income of affiliates. The previous fiscal year included, in addition to the contribution from the regular operations of Korea Life Insurance Co., Ltd, or KLI, our proportionate interest in the recognition of deferred tax assets of ¥5,380 million for KLI attributable to a change in tax rules in Korea.

Segment assets increased 6% from March 31, 2004 to ¥498,855 million as we expanded our operations in a number of countries throughout the region.

From fiscal 2005, the Europe segment and the Asia and Oceania segment have been combined and the new segment is shown as the Asia, Oceania and Europe segment.

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YEAR ENDED MARCH 31, 2004 COMPARED TO YEAR ENDED MARCH 31, 2003

Performance Summary

Income Statement Data

	Year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Income statement data:				
Total revenues	¥ 718,890	¥ 756,670	¥ 37,780	5
Total expenses	681,709	672,098	(9,611)	(1)
Operating income	37,181	84,572	47,391	127
Income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes	45,386	101,954	56,568	125
Net income	30,243	54,020	23,777	79

Total Revenues

	Year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Total revenues:				
Direct financing leases	¥ 122,928	¥ 112,372	¥ (10,556)	(9)
Operating leases	159,807	166,587	6,780	4
Interest on loans and investment securities	131,590	116,744	(14,846)	(11)
Brokerage commissions and net gains on investment securities	10,857	26,025	15,168	140
Life insurance premiums and related investment income	138,439	134,154	(4,285)	(3)
Real estate sales	71,165	98,034	26,869	38
Gains on sales of real estate under operating leases	3,257	9,116	5,859	180
Other operating revenues	80,847	93,638	12,791	16
Total	¥ 718,890	¥ 756,670	¥ 37,780	5

Total revenues in fiscal 2004 increased by 5%. Revenues from direct financing leases and interest on loans and investment securities fell compared to the previous year mainly as a result of a lower balance of assets due to our increased scrutiny in credit evaluations and continued focus on transaction profitability. Life insurance premiums and related investment income were also down primarily due to our continued focus on sales of more profitable life insurance products which generally produce lower levels of revenue. On the other hand, revenues from operating leases increased due mainly to improvements in our precision measuring equipment rental and automobile rental businesses. Gains on sales of real estate under operating leases also rose. In addition, real estate sales increased due to growth in the number of condominiums and other developments such as office buildings sold. Brokerage commissions and net gains on investment securities also increased as a result of improvements in the stock markets in Japan, while net gains on the sale of investment securities rose due to improved stock and bond markets in Japan and the United States. We also saw growth in other operating revenues due primarily to increases in contributions from building maintenance operations and revenues from companies in which we have invested as part of our corporate rehabilitation business.

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Total Expenses

	Year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Total expenses:				
Interest expense	¥ 71,380	¥ 60,060	¥ (11,320)	(16)
Costs of operating leases	117,362	120,566	3,204	3
Life insurance costs	125,684	119,653	(6,031)	(5)
Costs of real estate sales	60,769	88,679	27,910	46
Other operating expenses	41,319	52,551	11,232	27
Selling, general and administrative expenses	144,271	161,835	17,564	12
Provision for doubtful receivables and probable loan losses	54,706	49,592	(5,114)	(9)
Write-downs of long-lived assets	50,682	12,345	(38,337)	(76)
Write-downs of securities	14,325	5,240	(9,085)	(63)
Foreign currency transaction loss, net	1,211	1,577	366	30
Total	¥ 681,709	¥ 672,098	¥ (9,611)	(1)

Total expenses in fiscal 2004 decreased by 1%. In addition to a decline of ¥38,337 million in write-downs of long-lived assets, interest expense decreased due mainly to lower levels of operating assets and the resulting lower levels of debt relating to those assets in Japan and overseas. Life insurance costs declined to a larger degree than the decline in insurance-related revenues, while provision for doubtful receivables and probable loan losses and write-downs of securities decreased. Costs of operating leases increased as a result of an increase in investment in operating leases, while costs of real estate sales and other operating expenses rose in line with the increase in revenues from those sources. Selling, general and administrative expenses rose due mainly to an increase in the number of companies we consolidate as a result of the expansion of our business.

Operating Income, Income before Discontinued Operations, Extraordinary Gain, Cumulative Effect of a Change in Accounting Principle and Income Taxes and Net Income

Operating income in fiscal 2004 increased by 127% due primarily to a decline in write-downs of long-lived assets. Income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes increased by 125% due to the increase in operating income and an increase in equity in net income of affiliates.

Net income increased by 79% in fiscal 2004, which was a smaller improvement than the increase in income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes due primarily to a write-down of ¥5,586 million of deferred tax assets in fiscal 2004, which had been recognized as the excess of tax basis over amounts for financial reporting of investments in subsidiaries, and due to the absence in fiscal 2004 of a cumulative effect of a change in accounting principle, net of applicable tax effect, which was present in fiscal 2003. Basic earnings from continuing operations per share were ¥293.74 and ¥603.58 for the year ended March 31, 2003 and 2004. Basic and diluted earnings per share in fiscal 2003 were ¥361.44 and ¥340.95, respectively, compared to ¥645.52 and ¥601.46 in fiscal 2004.

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Operating Assets

	As of March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Operating assets:				
Investment in direct financing leases	¥ 1,572,308	¥ 1,453,575	¥ (118,733)	(8)
Installment loans	2,288,039	2,234,940	(53,099)	(2)
Investment in operating leases	529,044	536,702	7,658	1
Investment in securities	677,435	551,928	(125,507)	(19)
Other operating assets	76,343	72,049	(4,294)	(6)
Total operating assets	5,143,169	4,849,194	(293,975)	(6)
Allowance for doubtful receivables on direct financing leases and probable loan losses	(133,146)	(128,020)	5,126	(4)
Other assets	921,044	903,783	(17,261)	(2)
Total assets	¥ 5,931,067	¥ 5,624,957	¥ (306,110)	(5)

Operating assets decreased by 6% in fiscal 2004 due primarily to a decrease in volume of new assets, reduced investment in securities at ORIX Life Insurance and the appreciation of the yen against the dollar.

Details of Operating Results

Revenues, New Business Volumes and Operating Assets

Direct financing leases

	As of and for the year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Direct financing leases:				
Direct financing lease revenues	¥ 122,928	¥ 112,372	¥ (10,556)	(9)
Japan	91,443	86,928	(4,515)	(5)
Overseas	31,485	25,444	(6,041)	(19)

New receivables added	¥ 1,000,896	¥ 801,787	¥ (199,109)	(20)
Japan	758,786	618,452	(140,334)	(19)
Overseas	242,110	183,335	(58,775)	(24)
New equipment acquisitions	¥ 895,848	¥ 713,240	¥ (182,608)	(20)
Japan	675,563	541,917	(133,646)	(20)
Overseas	220,285	171,323	(48,962)	(22)
Investment in direct financing leases	¥ 1,572,308	¥ 1,453,575	¥ (118,733)	(8)
Japan	1,237,141	1,183,187	(53,954)	(4)
Overseas	335,167	270,388	(64,779)	(19)

Revenues from direct financing leases were ¥112,372 million in fiscal 2004. Revenues from Japanese operations decreased by 5% in fiscal 2004 due primarily to fewer gains from securitizations, which declined by 95% to ¥170 million in fiscal 2004. Revenues from overseas operations declined by 19% in fiscal 2004, due primarily to the appreciation of the yen against the dollar, and a lower average balance of assets in the United States.

The average return we charge on direct financing leases in Japan, calculated on the basis of quarterly balances, in fiscal 2004 was 6.36% compared to 6.17% in fiscal 2003. This was due primarily to increased proportion of revenues contributed by automobile leases, which normally generate higher returns than general

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equipment leases. The average return on overseas direct financing leases, calculated on the basis of quarterly balances, decreased to 8.18% in fiscal 2004 from 8.67% in fiscal 2003, due primarily to lower interest rates we charged in the United States corresponding to the lower prevailing interest rates there.

New receivables added related to direct financing leases decreased by 20% in fiscal 2004. New receivables added by Japanese operations decreased by 19% in fiscal 2004 due to a reduction in the acquisition amount, compared to fiscal 2003, while new receivables added by overseas operations decreased by 24% in fiscal 2004 due primarily to a decline in the volume of new lease contracts in the United States.

Investment in direct financing leases as of March 31, 2004 decreased by 8%. Assets in Japan declined by 4% due primarily to the absence of major acquisitions which were present in fiscal 2003, although the overall volume of transactions remained relatively stable throughout the periods under review, as a result of the strict selection of new assets and the off-balance securitization of direct financing lease assets of ¥16,672 million in fiscal 2004. Overseas assets decreased by 19% due primarily to the appreciation of the yen against the dollar and a decline in the volume of leasing assets in the United States.

As of March 31, 2004, no single lessee represented more than 1% of our total portfolio of direct finance leases. As of March 31, 2004, 81% of our direct financing leases were to lessees located in Japan, while 8% were to lessees located in the United States.

	As of March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Investment in direct financing leases by category:				
Information-related and office equipment	¥ 239,853	¥ 210,713	¥ (29,140)	(12)
Industrial equipment	271,471	214,682	(56,789)	(21)
Commercial services equipment	181,741	175,607	(6,134)	(3)
Transportation equipment	516,646	479,605	(37,041)	(7)
Other equipment	362,597	372,968	10,371	3
Total	¥ 1,572,308	¥ 1,453,575	¥ (118,733)	(8)

Investment in direct financing leases of information-related and office equipment decreased 12% in fiscal 2004 due primarily to a decrease of new contracts as a result of more stringent examinations in the new origination selection process in Japan.

Investment in direct financing leases of industrial equipment decreased by 21% in fiscal 2004 due primarily to declines in the volume of leasing assets at ORIX Financial Services in the United States.

Investment in direct financing leases of transportation equipment decreased by 7% in fiscal 2004 due primarily to declines in the volume of leasing assets at ORIX Financial Services in the United States.

Balances for investment in direct financing leases in the tables above do not include lease assets sold on securitization. However, gains from securitization are included in our direct financing lease revenues. During fiscal 2004, we sold on securitization ¥26,284 million of direct financing lease assets (¥16,672 million in Japan and ¥9,612 million overseas) that were treated as off-balance sheet assets, and during fiscal 2003, we sold on securitization ¥150,956 million of direct financing lease assets (¥134,416 million in Japan and ¥16,540 million overseas) that were treated as off-balance sheet assets. Gains from the securitization of these assets of ¥3,205 million and ¥170 million were included in direct financing lease revenues for fiscal 2003 and 2004, respectively. The balance of direct financing lease assets treated as off-balance sheet assets amounted to ¥325,083 million as of March 31, 2003 and ¥200,434 million as of March 31, 2004. If sold on securitization assets are included, the total balance of investment in direct financing lease assets would be ¥1,897,391 million as of March 31, 2003 and ¥1,654,009 million as of March 31, 2004. For more information on securitization, see Note 9 of Item 18. Financial Statements.

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Asset quality of our direct financing leases

	As of March 31,		
	2002	2003	2004
	(In millions of yen, except percentage data)		
Past due direct financing leases and allowances for direct financing leases:			
90+ days past due direct financing leases	¥ 67,924	¥ 47,825	¥ 36,568
90+ days past due direct financing leases as a percentage of the balance of investment in direct financing leases	4.10%	3.04%	2.52%
Provisions as a percentage of average balance of investment in direct financing leases (1)	1.29%	1.04%	0.87%
Allowance for direct financing leases	¥ 50,837	¥ 42,588	¥ 41,008
Allowance for direct financing leases as a percentage of the balance of investment in direct financing leases	3.06%	2.71%	2.82%

(1) Average balances are calculated on the basis of fiscal quarter-end balances.

The decrease in 90+ days past due direct financing leases occurred due primarily to charge-offs and a reduction in new 90+ days past due leases.

We believe that the ratio of allowance for doubtful receivables as a percentage of the balance of investment in direct financing leases was adequate as of March 31, 2004 for the following reasons:

- lease receivables are generally diversified and the amount of realized loss on any particular contract is likely to be relatively small; and

- all lease contracts are collateralized by the underlying leased equipment, and we can expect to recover at least a portion of the outstanding lease receivables by selling the underlying equipment.

The ratio of charge-offs as a percentage of the balance of investment in direct financing leases was 1.24%, 1.55% and 0.90% for fiscal 2002, 2003 and 2004, respectively.

Operating leases

	As of and for the year ended March 31,		Change	
	2003	2004	Amount	Percent (%)

	(In millions of yen, except percentage data)			
Operating leases:				
Operating lease revenues	¥ 159,807	¥ 166,587	¥ 6,780	4
Japan	116,512	123,199	6,687	6
Overseas	43,295	43,388	93	0
New equipment acquisitions	¥ 173,567	¥ 189,737	¥ 16,170	9
Japan	143,000	144,340	1,340	1
Overseas	30,567	45,397	14,830	49
Investment in operating leases	¥ 529,044	¥ 536,702	¥ 7,658	1
Japan	369,489	388,452	18,963	5
Overseas	159,555	148,250	(11,305)	(7)

Revenues from operating leases increased by 4% in fiscal 2004 due primarily to an improvement in the profitability of our precision measuring and other equipment rental operations and an increase in revenues associated with our automobile rental operations in Japan. In fiscal 2003 and 2004, gains from the disposition of operating lease assets other than real estate were ¥4,424 million and ¥2,783 million, respectively and are included in operating lease revenues.

New equipment acquisitions of operating leases increased by 9% in fiscal 2004 due primarily to acquisitions of real estate and automobile operating leases.

Investment in operating leases increased by 1% in fiscal 2004. In Japan, these investments rose 5% due primarily to purchases of real estate and the acquisition of JAPAREN, an automobile rental company, while overseas these investments decreased by 7% due primarily to the appreciation of the yen against the dollar.

	As of March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Investment in operating leases by category:				
Transportation equipment	¥ 174,893	¥ 202,514	¥ 27,621	16
Measuring equipment and personal computers	70,988	75,232	4,244	6
Real estate and other	283,163	258,956	(24,207)	(9)
Total	¥ 529,044	¥ 536,702	¥ 7,658	1

Investment in transportation equipment-related operating leases rose by 16% in fiscal 2004 due primarily to an increase in investments in automobile operating leases, while investments in real estate and other operating leases decreased by 9% due primarily to sales of real estate assets.

For information on the acquisition cost and accumulated depreciation of operating lease assets, see Note 5 in Item 18. Financial Statements.

Installment loans and investment securities

Installment loans

	As of and for the year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Installment loans:				
Interest on installment loans	¥ 115,610	¥ 107,490	¥ (8,120)	(7)
Japan	89,068	89,295	227	0
Overseas	26,542	18,195	(8,347)	(31)

New loans added	¥ 1,268,170	¥ 1,124,276	¥ (143,894)	(11)
Japan	1,100,887	957,646	(143,241)	(13)
Overseas	167,283	166,630	(653)	(0)
Installment loans	¥ 2,288,039	¥ 2,234,940	¥ (53,099)	(2)
Japan	1,954,640	1,984,416	29,776	2
Overseas	333,399	250,524	(82,875)	(25)

Interest on installment loans decreased by 7% in fiscal 2004. Revenues from interest on installment loans in Japan were flat compared to fiscal 2003 due primarily to a higher average balance of assets offset by a decrease in gains from securitization. Interest on overseas installment loans decreased by 31% in fiscal 2004 primarily as a result of a lower average balance of loans and lower prevailing interest rates in the United States.

The average interest rate earned on loans in Japan, calculated on the basis of quarterly balances, increased to 4.73% in fiscal 2004 from 4.32% in fiscal 2003 due primarily to an increase in income from high-yield card loans. The average interest rate earned on overseas loans, calculated on the basis of quarterly balances, decreased to 5.86% in fiscal 2004 from 6.28% in fiscal 2003 due primarily to declines in market interest rates prevailing in the United States.

New loans added decreased by 11% in fiscal 2004 due primarily to increased scrutiny in the selection process for originating new loans to corporate customers and efforts to hold down growth of new card loans in Japan.

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The balance of installment loans as of the year ended March 31, 2004 remained relatively stable compared to the balance as of March 31, 2003. The balance of installment loans for borrowers in Japan rose by 2% due primarily to increases in loans to corporate customers while the balance of installment loans for overseas borrowers decreased by 25% due primarily to the appreciation of the yen against the dollar and the repayment of certain installment loans.

As of March 31, 2004, 89% of our installment loans were to borrowers in Japan, while 5% were to borrowers in the United States.

The table below sets forth the balances as of March 31, 2004 and 2003 of our installment loans to borrowers in Japan and overseas, categorized by the type of borrower (i.e., consumer or corporate) in the case of borrowers in Japan. As of March 31, 2004, ¥187,487 million, or 8%, of installment loans to corporate borrowers in Japan portfolio related to our life insurance operations.

	As of March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Installment loans:				
Consumer borrowers in Japan				
Housing loans	¥ 531,904	¥ 504,386	¥ (27,518)	(5)
Card loans	271,636	247,598	(24,038)	(9)
Other	32,668	54,634	21,966	67
Subtotal	836,208	806,618	(29,590)	(4)
Corporate borrowers in Japan				
Real estate-related companies	276,332	310,847	34,515	12
Commercial and industrial companies	821,992	850,539	28,547	3
Subtotal	1,098,324	1,161,386	63,062	6
Total (Japan)	1,934,532	1,968,004	33,472	2
Overseas corporate, industrial and other borrowers	333,313	250,460	(82,853)	(25)
Loan origination costs, net	20,194	16,476	(3,718)	(18)
Total	¥ 2,288,039	¥ 2,234,940	¥ (53,099)	(2)

As of March 31, 2004, ¥350,021 million, or 16% of all installment loans was outstanding to real estate-related companies and construction companies. Of these loans, ¥28,896 million, or 1%, were classified as impaired loans in accordance with FASB Statement No. 114. We allocated an allowance of ¥13,257 million to these impaired loans. The remaining outstanding balance represents performing loans or the portion of loans secured by collateral. As of March 31, 2004, we had installment loans outstanding in the amount of ¥263,112 million, or 12% of all installment loans, to companies in the entertainment industry. Of this amount, ¥11,421 million, or 1%, was classified as impaired loans in accordance with FASB Statement No. 114. We allocated an allowance of ¥4,214 million to these impaired loans. The remaining outstanding balance represents performing loans or the portion of loans secured by collateral.

The balance of loans to consumer borrowers in Japan as of March 31, 2004 declined by 4%, compared to the balance as of March 31, 2003, due primarily to a decline in card loans.

The balance of loans to corporate borrowers in Japan as of March 31, 2004 rose by 6%, compared to the balance as of March 31, 2003, due primarily to increased loans to real estate-related companies.

Balances of installment loans in the tables above do not include assets sold on securitization. However, the amount of interest on installment loans includes gains from the securitization of installment loans. We sold on

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securitization ¥78,674 million and ¥9,250 million in installment loans, which were treated as off-balance sheet assets in fiscal 2003 and 2004, respectively. Gains from the securitization of loans of ¥6,444 million and ¥276 million were included in interest on installment loans in fiscal 2003 and 2004, respectively. The balance of installment loans treated as off-balance sheet assets amounted to ¥137,867 million and ¥139,509 million as of March 31, 2003 and 2004, respectively. If loans sold on securitization were included, the total balance of installment loans would be ¥2,425,906 million and ¥2,374,449 million as of March 31, 2003 and 2004, respectively. For more information on securitization, see Note 9 in Item 18. Financial Statements.

Asset quality of our installment loans

	As of and for the year ended March 31,		
	2002	2003	2004
	(In millions of yen)		
Loans considered impaired in accordance with FASB Statement No. 114:			
Impaired loans	¥ 113,000	¥ 97,278	¥ 93,542
Impaired loans requiring a valuation allowance	71,802	63,975	72,033
Valuation allowance (1)	45,862	36,073	39,187

(1) The valuation allowance for each period is the required valuation allowance less the value of the collateral from impaired loans, calculated in accordance with FASB Statement No. 114.

In fiscal 2004, a charge-off of impaired loans amounting to ¥12,688 million resulted in a decrease in the outstanding balances of impaired loans as of March 31, 2004. In fiscal 2003, the charge-off of impaired loans amounted to ¥23,676 million.

The table below sets forth the outstanding balances of impaired loans by region and type of borrower. Consumer loans in Japan primarily consist of restructured smaller-balance homogeneous loans to be accounted for in accordance with FASB Statement No. 114.

	As of March 31,		
	2002	2003	2004
	(In millions of yen)		
Impaired loans:			
Consumer borrowers in Japan	¥ 2,193	¥ 965	¥ 6,638
Subtotal	2,193	965	6,638
Corporate borrowers in Japan			
Real estate-related companies	40,184	27,508	22,274
Commercial and industrial companies	58,338	59,578	58,311
Subtotal	98,522	87,086	80,585

Overseas corporate, industrial and other borrowers	12,285	9,227	6,319
Total	¥ 113,000	¥ 97,278	¥ 93,542

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The table below sets forth information as to past-due loans and allowance for installment loans, excluding amounts covered by FASB Statement No. 114. Average balances are calculated on the basis of fiscal quarter-end balances.

	As of March 31,		
	2002	2003	2004
	(In millions of yen, except percentage data)		
Past-due loans and allowance for installment loans:			
90+ days past due loans not covered by FASB Statement No. 114	¥ 74,199	¥ 60,587	¥ 43,176
90+ days past due loans not covered by FASB Statement No. 114 as a percentage of the balance of installment loans not covered by FASB Statement No. 114	3.43%	2.77%	2.02%
Provisions as a percentage of average balance of installment loans	1.09%	1.06%	0.93%
Allowance for probable loan losses not covered by FASB Statement No. 114	¥ 56,188	¥ 54,485	¥ 47,825
Allowance for probable loan losses not covered by FASB Statement No. 114 as a percentage of the balance of installment loans not covered by FASB Statement No. 114	2.60%	2.49%	2.23%

The balance of 90+ days past due loans not covered by FASB Statement No. 114 declined by 29% in fiscal 2004, principally due to charge-offs of ¥25,970 million in fiscal 2004.

	As of March 31,		
	2002	2003	2004
	(In millions of yen)		
90+ days past due loans not covered by FASB Statement No. 114:			
Consumer borrowers in Japan			
Housing loans	¥ 53,577	¥ 49,098	¥ 37,764
Card loans and other	9,585	6,963	4,709
Corporate borrowers in Japan			
Real estate-related companies	195	390	
Commercial and industrial companies	2,192	1,414	
Overseas corporate, industrial and other borrowers	8,650	2,722	703
Total	¥ 74,199	¥ 60,587	¥ 43,176

We believe that the level of the allowance as of March 31, 2004 was adequate because we expect to recover a portion of the outstanding balance for 90+ days past-due loans not covered by FASB Statement No. 114 primarily because most 90+ days past due loans are housing loans, which are ordinarily made to a diverse group of individuals whom we believe generally have a higher credit rating than the population at-large and which are ordinarily secured by first mortgages.

The ratio of charge-offs as a percentage of the balance of installment loans was 1.00%, 1.24% and 1.20% for fiscal 2002, 2003 and 2004, respectively.

Investment securities

We maintain a sizable investment in various securities. The largest segment of this portfolio is the investments in our life insurance operations. This constituted approximately 42% of our total investment in securities as of March 31, 2004. Our portfolio included investments by our US operations in high yield debt securities, totaling ¥29,300 million, and in commercial mortgage-backed securities, totaling of ¥102,850 million, each as of March 31, 2004.

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	As of March 31, 2003		
	Life insurance	Other operations	Total
	(In millions of yen)		
Investment securities:			
Fixed income securities	¥ 314,465	¥ 194,578	¥ 509,043
Marketable equity securities	550	35,269	35,819
Other securities	26,885	105,688	132,573
Total	¥ 341,900	¥ 335,535	¥ 677,435

	As of March 31, 2004		
	Life insurance	Other operations	Total
	(In millions of yen)		
Investment securities:			
Fixed income securities	¥ 193,384	¥ 137,868	¥ 331,252
Marketable equity securities	238	55,307	55,545
Other securities	38,187	126,944	165,131
Total	¥ 231,809	¥ 320,119	¥ 551,928

The balance of our investments in securities other than in connection with our life insurance operations decreased to ¥320,119 million as of March 31, 2004 from ¥335,535 million as of March 31, 2003 due primarily to the appreciation of the yen against the dollar.

	As of and for the year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Investment securities:				
Interest on investment securities	¥ 15,980	¥ 9,254	¥ (6,726)	(42)
Japan	866	885	19	2
Overseas	15,114	8,369	(6,745)	(45)
New securities added	¥ 231,294	¥ 122,066	¥ (109,228)	(47)
Japan	214,477	100,912	(113,565)	(53)
Overseas	16,817	21,154	4,337	26
Investment in securities	¥ 677,435	¥ 551,928	¥ (125,507)	(19)
Japan	497,829	399,463	(98,366)	(20)
Overseas	179,606	152,465	(27,141)	(15)

Interest on investment securities other than those held in connection with our life insurance operations decreased by 42% in fiscal 2004 due primarily to the decline in investments in securities and lower prevailing market interest rates in the United States. The average interest rate earned on investment securities in Japan, calculated on the basis of quarterly balances, decreased to 1.39% in fiscal 2004 from 1.61% in fiscal 2003 due primarily to declines in prevailing market interest rates in Japan. The average interest rate earned on overseas investment securities, calculated on the basis of quarterly balances, decreased to 6.33% in fiscal 2004 from 8.94% in fiscal 2003 due primarily to declines in prevailing market interest rates in the United States.

New securities added decreased by 47% in fiscal 2004. New securities added in Japan decreased by 53% due mainly to fewer new securities added at ORIX Life Insurance as we have shifted assets in the investment portfolio away from investment in fixed income securities and focused more on loans and other investments. New securities added overseas rose by 26% due primarily to increases in debt securities in the United States.

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The balance of our investment in securities as of March 31, 2004 decreased by 19% compared to fiscal 2003. The balance of our investment in securities in Japan decreased by 20% due primarily to decreases at ORIX Life Insurance, while the balance of our investment in securities overseas decreased by 15% due primarily to the appreciation of the yen against the dollar.

	As of March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Investment in securities by security type:				
Trading securities	¥ 12,154	¥ 26,354	¥ 14,200	117
Available-for-sale securities	537,888	386,797	(151,091)	(28)
Held-to-maturity securities	10,638		(10,638)	(100)
Other securities	116,755	138,777	22,022	19
Total	¥ 677,435	¥ 551,928	¥ (125,507)	(19)

In past years, we mainly invested in US corporate bonds purchased in the primary markets, and income was mostly realized in the form of interest. However, we began to purchase bonds that we believe are undervalued in the secondary markets to realize gains from sales. This shift in strategy increased investments in trading securities by 117% in fiscal 2004. Investments in available-for-sale securities and held-to-maturity securities decreased due mainly to the sale of fixed income securities of ORIX Life Insurance and the redemption of our held-to-maturity securities. Other securities increased due primarily to the purchase of non-marketable equity securities.

The above table does not include assets sold on securitization. Securities treated as off-balance sheet assets were ¥45,478 million as of March 31, 2003. No securities were securitized in fiscal 2003 or 2004. As a result of the redemption of subordinated interests in a collateralized bond obligation prior to maturity during fiscal 2004, we had no outstanding balance of securitized assets as of March 31, 2004. If assets sold on securitization were included, the total balance of investment in securities would be ¥722,913 million and ¥551,928 million as of March 31, 2003 and 2004, respectively.

For further information on investment in securities, see Note 8 of Item 18. Financial Statements.

Brokerage commissions and net gains on investment securities

	Year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Brokerage commissions and net gains on investment securities:				
Brokerage commissions	¥ 2,400	¥ 3,967	¥ 1,567	65
Net gains on investment securities	8,457	22,058	13,601	161

Total	¥ 10,857	¥ 26,025	¥ 15,168	140

Brokerage commissions and net gains on investment securities increased by 140% in fiscal 2004. Our brokerage commissions increased by 65% due primarily to increased activity in the Japanese stock market, while net gains on investment securities increased by 161% due primarily to a recovery in the stock markets in Japan and the bond markets in the United States.

As of March 31, 2004, gross unrealized gains on available-for-sale securities, including those held in connection with our life insurance operations, were ¥46,830 million, compared to ¥20,845 million as of March 31, 2003. As of March 31, 2004, gross unrealized losses on available-for-sale securities, including those held in connection with our life insurance operations, were ¥7,672 million, compared to ¥11,694 million as of March 31, 2003. These unrealized gains increased, and unrealized losses decreased, due primarily to improvements in the stock markets in Japan and bond markets in the United States.

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Life insurance premiums and related investment income

	Year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Life insurance premiums and related investment income:				
Life insurance premiums	¥ 122,963	¥ 119,458	¥ (3,505)	(3)
Life insurance-related investment income	15,476	14,696	(780)	(5)
Total	¥ 138,439	¥ 134,154	¥ (4,285)	(3)

Life insurance premiums and related investment income decreased by 3% in fiscal 2004 compared to fiscal 2003. Life insurance premiums of ORIX Life Insurance declined by 3% due to a continued focus on sales of more profitable life insurance products, which generally produce lower levels of revenue. Life insurance-related investment income decreased by 5% in fiscal 2004 due to lower net gains from the sale of securities.

	Year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Investments by ORIX Life Insurance:				
Fixed income securities	¥ 314,465	¥ 193,384	¥ (121,081)	(39)
Marketable equity securities	550	238	(312)	(57)
Other securities	26,885	38,187	11,302	42
Total investment in securities	341,900	231,809	(110,091)	(32)
Installment loans and other investments	237,905	350,664	112,759	47
Total	¥ 579,805	¥ 582,473	¥ 2,668	0

Fixed income securities in fiscal 2004 decreased by 39% compared to fiscal 2003, while installment loans and other investments increased by 47%. These changes are due primarily to our attempt to reduce the amount of fixed income securities, to increase loans and other assets to mitigate the effects of a potential rise in interest rates and to increase profitability of assets under management.

Year ended March 31,		Change	
2003	2004	Amount	Percent (%)

	(In millions of yen, except percentage data)			
Breakdown of life insurance-related investment income:				
Net gains (losses) on investment securities	¥ 3,448	¥ (589)	¥ (4,037)	
Interest on loans and investment securities, and others	12,028	15,285	3,257	27
Total	¥ 15,476	¥ 14,696	¥ (780)	(5)

For further information on life insurance operations, see Note 21 of Item 18. Financial Statements.

Real estate sales

	Year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Real estate sales:				
Real estate sales	¥ 71,165	¥ 98,034	¥ 26,869	38

Revenues from real estate sales in fiscal 2004 increased by 38% compared to fiscal 2003, as lower land prices in metropolitan areas, especially around Tokyo, have resulted in what we perceive to be a relatively strong demand from buyers who wish to live close to urban centers.

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Gains on sales of real estate under operating leases

	Year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Gains on sales of real estate under operating leases:				
Gains on sales of real estate under operating leases	¥ 3,257	¥ 9,116	¥ 5,859	180
Japan	581	8,871	8,290	1427
Overseas	2,676	245	(2,431)	(91)

We added a new line item, gains on sales of real estate under operating leases, to our consolidated statements of income in fiscal 2004 due to the increased importance of such gains to us. Gains rose by 180% due primarily to increased sales of office buildings under operating leases in Japan.

Other operations

	As of and for the year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Other operations:				
Other operating revenues	¥ 80,847	¥ 93,638	¥ 12,791	16
Japan	70,725	83,283	12,558	18
Overseas	10,122	10,355	223	2
Other operating assets	¥ 76,343	¥ 72,049	¥ (4,294)	(6)
Japan	66,713	64,993	(1,720)	(3)
Overseas	9,630	7,056	(2,574)	(27)

Other operating revenues in fiscal 2004 increased by 16%, due primarily to increases in revenues from integrated facilities management operations and to increases in revenues attributable to companies which we acquired and consolidated in fiscal 2003 and 2004 as part of our corporate rehabilitation business.

Expenses

Interest expense

Interest expense decreased 16% primarily as a result of a lower level of debt related to the lower level of operating assets in Japan and overseas. Based on segment information, interest expense in overseas segments was ¥26,421 million in fiscal 2004 and ¥35,663 million in fiscal 2003, a decline of 26% primarily as a result of lower interest rates overseas and, to a lesser extent, lower debt levels.

The average interest rate on our short-term and long-term debt in Japan, calculated on the basis of quarterly balances, was 1.04% in fiscal 2004, compared to 1.11% in fiscal 2003. The average interest rate on our short-term and long-term overseas debt, calculated on the basis of quarterly balances, decreased to 4.14% in fiscal 2004 from 4.19% in fiscal 2003 due to lower interest rates overseas.

Costs of operating leases

Costs of operating leases increased 3% due primarily to a higher average operating lease asset balance.

Life insurance costs

In line with a decrease in life insurance premiums, life insurance costs in fiscal 2004 decreased 5%. Margins improved to 11% in fiscal 2004 compared with 9% in fiscal 2003 due primarily to increased sales of higher margin products such as term-life, medical and cancer insurance.

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Costs of real estate sales

Costs of real estate sales for fiscal 2004 increased 46% corresponding to increased revenues from residential condominium sales during the same period. Margins declined to 10% in fiscal 2004 from 17% in fiscal 2003 due primarily to an increased amount of sales of lower margin units in fiscal 2004 compared to fiscal 2003. In fiscal 2003, we sold a number of units in large-scale luxury condominiums, whereas sales in fiscal 2004 were concentrated on smaller developments and investment purpose condominiums that also included the purchase, development and sale of condominiums under construction that have lower margins.

Other operating expenses

Other operating expenses increased 27% due in part to an increase in operating revenues.

Selling, general and administrative expenses

	Year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Selling, general and administrative expenses:				
Personnel expenses	¥ 66,155	¥ 79,083	¥ 12,928	20
Selling expenses	24,131	25,268	1,137	5
Administrative expenses	50,913	53,692	2,779	5
Depreciation of office facilities	3,072	3,792	720	23
Total	¥ 144,271	¥ 161,835	¥ 17,564	12

Selling, general and administrative expenses increased 12%. About half of this increase was due to growth in the number of companies we consolidate and the other half was due primarily to an increase in costs associated with our existing businesses.

Provision for doubtful receivables and probable loan losses

The provision for doubtful receivables and probable loan losses in fiscal 2004 decreased 9%. Provisions for direct financing leases declined 21% due primarily to a decrease in 90+ days past due loans overseas, particularly in the United States, and in Japan, while provisions for loans not covered by FASB Statement No. 114 decreased 14% due to a decline in 90+ days past-due receivables. Provisions for loans covered by FASB Statement No. 114 increased 13% due primarily to the increase in loans requiring a valuation allowance.

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	Year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Provision for doubtful receivables on direct financing leases and probable loan losses:				
Beginning balance	¥ 152,887	¥ 133,146	¥ (19,741)	(13)
Direct financing leases	50,837	42,588	(8,249)	(16)
Loans not covered by FASB Statement No. 114	56,188	54,485	(1,703)	(3)
FASB Statement No. 114 impaired loans	45,862	36,073	(9,789)	(21)
Provisions charged to income	¥ 54,706	¥ 49,592	¥ (5,114)	(9)
Direct financing leases	16,978	13,397	(3,581)	(21)
Loans not covered by FASB Statement No. 114	23,497	20,118	(3,379)	(14)
FASB Statement No. 114 impaired loans	14,231	16,077	1,846	13
Charge-offs (net)	¥ (76,564)	¥ (52,579)	¥ 23,985	(31)
Direct financing leases	(25,445)	(13,921)	11,524	(45)
Loans not covered by FASB Statement No. 114	(27,443)	(25,970)	1,473	(5)
FASB Statement No. 114 impaired loans	(23,676)	(12,688)	10,988	(46)
Other (1)	¥ 2,117	¥ (2,139)	¥ (4,256)	
Direct financing leases	218	(1,056)	(1,274)	
Loans not covered by FASB Statement No. 114	2,243	(808)	(3,051)	
FASB Statement No. 114 impaired loans	(344)	(275)	69	(20)
Ending balance	¥ 133,146	¥ 128,020	¥ (5,126)	(4)
Direct financing leases	42,588	41,008	(1,580)	(4)
Loans not covered by FASB Statement No. 114	54,485	47,825	(6,660)	(12)
FASB Statement No. 114 impaired loans	36,073	39,187	3,114	9

(1) Other includes foreign currency translation adjustments and the effect of acquisitions.

Write-downs of long-lived assets

In accordance with FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we wrote down ¥12,345 million in real estate assets in Japan and overseas in fiscal 2004 compared to write-downs of ¥50,682 million in fiscal 2003, all of which were on real estate assets in Japan. The properties written down in fiscal 2004 included golf courses in Japan, a commercial complex in the United States, and corporate dormitories, residential condominiums and other properties in Japan.

All write-downs of long-lived assets in fiscal 2003 were recorded in the real estate segment. In fiscal 2004, the following write-downs were recorded: (i) ¥8,052 million in the real estate segment; (ii) ¥3,019 million in the Americas segment; (iii) ¥143 million in the Corporate Financial Services segment; and (iv) ¥1,131 million recorded separately from segment information for assets considered corporate assets. Our total investment in long-lived assets as of March 31, 2004 was ¥631,112 million. Of this, ¥462,853 million were located in Japan and ¥168,259 million were located overseas. Of the long-lived assets in Japan, ¥192,969 million were in the real estate segment. For discussion of these write-downs, including the details of the types of assets and the amounts that were written down, see Note 23 of Item 18. Financial Statements. For a breakdown of long-lived assets by segment, see Note 30 of Item 18. Financial Statements.

Write-downs of securities

In fiscal 2004, write-downs of securities declined 63% due primarily to improvements in stock markets in Japan and bond markets in the United States.

Foreign currency transaction loss, net

We recognized a foreign currency transaction net loss in the amount of ¥1,577 million in fiscal 2004, compared to a loss of ¥1,211 million in fiscal 2003, due primarily to the appreciation of the euro against the dollar. For information on the impact of foreign currency fluctuations, see Item 11. Qualitative and Quantitative Disclosures about Market Risk.

Income Before Discontinued Operations, Extraordinary Gain, Cumulative Effect of a Change in Accounting Principle and Income Taxes

Equity in net income of affiliates

Equity in net income of affiliates in fiscal 2004 was a gain of ¥17,924 million, compared to a gain of ¥6,203 million in fiscal 2003.

Equity in net income of affiliates for fiscal 2004 included ¥10,047 million from Korea Life. This amount included our proportionate interest in the ordinary operating results of Korea Life and our proportionate interest in the recognition of deferred tax assets of ¥5,380 million attributable to a change in tax rules in South Korea.

For discussion of investment in affiliates, see Note 11 of Item 18. Financial Statements.

Gains (losses) on sales of affiliates

Gains (losses) on sales of affiliates in fiscal 2004 was a net loss of ¥542 million. The loss was caused by the issuance by certain affiliates of new shares to third parties at prices lower than the book value of our investments. A gain of ¥2,002 million in fiscal 2003 was due primarily to a gain on sales of stock purchase options related to Korea Life.

Provision for income taxes

Provision for income taxes in fiscal 2004 was ¥51,444 million, compared to the provision of ¥20,808 million in fiscal 2003. The increase of ¥30,636 million was due primarily to higher income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes. In addition, ¥5,586 million of deferred tax assets, which had been recognized in an amount equal to the amounts of the excess of the tax basis over the amounts for financial reporting of investments in subsidiaries, was written down in fiscal 2004. Due to a change in our future tax plan, the temporary differences for these deferred tax assets will no longer reverse in the foreseeable future and accordingly, should no longer be recognized. For discussion of income taxes, see Note 15 in Item 18. Financial Statements.

Discontinued operations

Income from discontinued operations, net of applicable tax effect, was ¥2,901 million in fiscal 2004 compared to ¥514 million in fiscal 2003 due primarily to gains on the sale of real estate in fiscal 2004. For a discussion of discontinued operations, see Note 24 of Item 18. Financial Statements.

Extraordinary gain, net of applicable tax effect

We recorded an extraordinary gain of ¥609 million in fiscal 2004, which resulted from acquisitions of interests in affiliate companies, in accordance with FASB Statement No. 141, Business Combinations which reflects our proportional share of the fair value of the underlying net assets acquired over the acquisition cost. We acquired approximately a 22% interest in Fuji Fire and Marine on March 30, 2002. After US GAAP financial statements for Fuji Fire and Marine were completed in January 2003, we recorded an extraordinary gain of ¥3,214 million, net of applicable taxes, for our proportional share of the fair value of the net assets acquired over the acquisition cost in fiscal 2003.

Cumulative effect of a change in accounting principle

No cumulative effect of a change in accounting principle was recorded in fiscal 2004. As a result of the adoption of FASB Statement No. 141, Business Combinations , we recorded a transition gain in fiscal 2003, as an effect of a change in accounting principle, as a result of a write-off of unamortized deferred credits of ¥1,937 million that existed as of March 31, 2002. The deferred credits relate to an excess of the fair value over cost arising from business combinations completed and investments accounted for by the equity method acquired before July 1, 2001.

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Segment Information

Segments in Japan accounted for 80% and 79% of total segment profit in fiscal 2003 and 2004, respectively. As of March 31, 2004, ¥4,167,472 million, or 82%, of total segment assets were in Japan.

Segments overseas accounted for 20% and 21% of total segment profits in fiscal 2003 and 2004, respectively. As of March 31, 2004, ¥472,595 million, or 9%, of total segment assets were in the Americas, ¥469,675 million, or 9%, in Asia, Oceania and Europe.

	Year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Segment revenues:				
Business segments in Japan				
Corporate Financial Services	¥ 82,059	¥ 80,418	¥ (1,641)	(2)
Automobile Operations	66,215	72,614	6,399	10
Rental Operations	68,162	73,235	5,073	7
Real Estate-Related Finance	52,548	56,804	4,256	8
Real estate	110,092	148,217	38,125	35
Life insurance	138,511	133,391	(5,120)	(4)
Other	61,240	73,987	12,747	21
Subtotal	578,827	638,666	59,839	10
Overseas business segments				
The Americas	61,643	50,373	(11,270)	(18)
Asia, Oceania and Europe	75,005	71,176	(3,829)	(5)
Subtotal	136,648	121,549	(15,099)	(11)
Total	715,475	760,215	44,740	6
Reconciliation of segment totals to consolidated amounts	3,415	(3,545)	(6,960)	
Total consolidated revenues	¥ 718,890	¥ 756,670	¥ 37,780	5

	Year ended March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Segment profit: (1)				
Business segments in Japan				
Corporate Financial Services	¥ 27,560	¥ 27,150	¥ (410)	(1)
Automobile Operations	17,775	17,921	146	1
Rental Operations	3,225	8,058	4,833	150

Real Estate-Related Finance	19,572	18,102	(1,470)	(8)
Real estate	(39,441)	6,244	45,685	
Life insurance	4,791	5,382	591	12
Other	8,452	10,079	1,627	19
Subtotal	41,934	92,936	51,002	122
Overseas business segments				
The Americas	1,332	7,601	6,269	471
Asia, Oceania and Europe	9,029	16,596	7,567	84
Subtotal	10,361	24,197	13,836	134
Total segment profit (loss)	52,295	117,133	64,838	124
Reconciliation of segment totals to consolidated amounts	(6,909)	(15,179)	(8,270)	120
Total consolidated income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes	¥ 45,386	¥ 101,954	¥ 56,568	125

(1) We believe transactions involving discontinued operations are part of our regular real estate operations and are therefore included in segment profits under segment information.

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	As of March 31,		Change	
	2003	2004	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Segment assets:				
Business segments in Japan				
Corporate Financial Services	¥ 1,525,968	¥ 1,416,117	¥ (109,851)	(7)
Automobile Operations	385,385	418,412	33,027	9
Rental Operations	126,466	119,388	(7,078)	(6)
Real Estate-Related Finance	931,513	909,019	(22,494)	(2)
Real estate	303,838	309,558	5,720	2
Life insurance	579,805	582,473	2,668	1
Other	387,978	412,505	24,527	6
Subtotal	4,240,953	4,167,472	(73,481)	(2)
Overseas business segments				
The Americas	618,148	472,595	(145,553)	(24)
Asia, Oceania and Europe	513,081	469,675	(43,406)	(8)
Subtotal	1,131,229	942,270	(188,959)	(17)
Total	5,372,182	5,109,742	(262,440)	(5)
Reconciliation of segment totals to consolidated amounts	558,885	515,215	43,670	(8)
Total consolidated assets	¥ 5,931,067	¥ 5,624,957	¥ 306,110	(5)

Business Segments in Japan

Corporate Financial Services

Segment revenues decreased 2% and profits decreased 1% due primarily to fewer gains from securitization. Corporate Financial Services-related assets decreased 7% due primarily to the transfer of investment in certain loans and direct financing leases to the life insurance segment.

Automobile Operations

Segment revenues increased 10%, but segment profits were flat due primarily to increase in provision for doubtful receivables and probable loan losses. Segment assets rose 9% due primarily to the acquisition of JAPAREN, a car rental company.

Rental Operations

Segment revenues increased 7% and segment profits more than doubled in fiscal 2004 due to improved profitability of our precision measuring and other equipment rental operations. The balance of segment assets declined 6% due primarily to decrease in investment in direct finance lease.

Real Estate-Related Finance

The Real Estate-Related Finance segment saw continued, strong contributions from consumer housing loans and corporate loans, including non-recourse loans, while our loan servicing operations also made contributions. However, primarily as a result of our recording of ¥3,174 million in gains from the listing and sale of shares in a REIT in fiscal 2003, our profits in this segment decreased by 8% in fiscal 2004. Segment assets declined 2%.

Real estate

Steady performance from condominium development and integrated facilities management, in addition to gains from the sale of office buildings under operating leases, contributed to real estate earnings. Segment profits in fiscal 2004 were ¥6,244 million compared to a loss of ¥39,441 million in fiscal 2003, primarily as a result of a decline in real estate asset write-downs. In fiscal 2003, we recorded ¥50,682 million in write-downs of certain real estate assets, whereas only ¥8,052 million of such write-downs were recorded in fiscal 2004. The balance of real estate assets as of March 31, 2004, increased 2% due primarily to an increase in assets associated with new condominium developments.

Life insurance

Revenue from our life insurance business declined because of our continuing emphasis on selling high-margin insurance products which generally produce lower levels of revenues. Investment income also declined due to a decline in net gains from sale of securities. Along with the decline in revenues, life insurance costs for policy reserves and related expenses also declined, resulting in an increase in segment profits to ¥5,382 million in fiscal 2004, from ¥4,791 million in fiscal 2003. The balance of segment assets as of March 31, 2004 was flat.

Other

In fiscal 2004, our consumer card loan operations continued to contribute to segment earnings, while our securities brokerage business expanded, benefiting primarily from improvements in the Japanese stock markets. Additionally, both of our venture capital operations and equity method affiliates contributed to segment earnings in fiscal 2004 compared to fiscal 2003. As a result, segment profits rose to ¥10,079 million in fiscal 2004, compared to ¥8,452 million in fiscal 2003.

Overseas Business Segments

The Americas

Segment profits improved to ¥7,601 million in fiscal 2004, compared to ¥1,332 million in fiscal 2003, due largely to fewer write-downs of securities and lower provisions for doubtful receivables and probable loan losses.

Asia, Oceania and Europe

Contributions from automobile leasing and corporate lending of a number of companies in the region, in addition to an increase in equity in net income of affiliates from KLI, resulted in a rise in segment profits to ¥16,596 million in fiscal 2004, compared to ¥9,029 million in fiscal 2003.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

We continually require funds for working capital and to maintain and grow our business. We have continued to diversify our funding methods and sources over the years in order to maintain stable access to funding and reduce interest expenses. We attempt to flexibly adjust our funding structure to adapt to changing market environments and we strive to consistently undertake smooth and low-cost fund procurement by monitoring risks associated with fluctuations in interest rates and liquidity levels and by promptly responding to changes in the financial environment.

We manage our funding and liquidity by monitoring the relative maturities of assets and liabilities and by borrowing funds, primarily in the Japanese financial and capital markets, but also in significant amounts overseas. Funds raised are used to fund asset growth and to meet debt obligations and other commitments on a timely and cost-effective basis. We place a priority on the ready and rapid access to funding in order to be able to respond rapidly to client and transactional requirements. By monitoring cash flow requirements from sales and marketing activities, and the funding supply and demand balance, we seek to ensure timely and ample access to funding.

Our primary sources of debt funding include borrowings from financial institutions and fund procurement from the capital markets. On a consolidated basis, the ratio of our funds procured directly from the capital markets to our total debt and deposits was 47% and 47% in fiscal 2004 and fiscal 2005, respectively. In line with such factors as changes in the financial environment, we adjust the ratio of our funding that we procure from the capital markets in an attempt to consistently maintain an optimal funding structure.

To facilitate funding operations, we have obtained credit ratings for ORIX notes and bonds from two Japanese rating agencies. As of June 30, 2005, ORIX straight bonds issued in Japan and an MTN program were assigned A+ ratings by both Rating and Investment Information Inc., or R&I, and Japan Credit Rating Agency, Ltd., or JCR. ORIX CP in Japan is rated a-1 by R&I and J-1 by JCR.

We have also obtained ratings from Standard and Poor s and Moody s. Standard and Poor s has assigned us a BBB+ rating, and no change in the rating occurred in fiscal 2005. Moody s has assigned us a Baa3 rating, and no change in the rating occurred in fiscal 2005.

We believe that our working capital is sufficient for our present requirements due to our diversification of funding sources and to the inflow of cash from our leasing, lending and other operations, which can be used to repay debt or execute new transactions. A downgrade in our credit ratings could result in an increase in our interest expense and could have an adverse impact on our ability to access the CP market or the public and private debt markets, which could have an adverse effect on our financial position, results of operations and liquidity. Even if we are unable to access these markets on acceptable terms, we have access to other sources of liquidity, including bank borrowings, cash flows from our operations and sales of our assets. We cannot be sure, however, that these other sources will be adequate if our credit ratings are downgraded or other adverse conditions arise. In addition, our subsidiaries may be restricted from paying dividends for various reasons, including because of Japanese Commercial Code requirements and, for regulated subsidiaries, capital adequacy requirements. We do not expect such restrictions to have a significant impact on our ability to meet our cash obligations.

We continue to rely on short-term funding from Japanese commercial banks and commercial paper. We are taking steps to reduce refinancing risks by diversifying our funding sources and establishing committed credit facilities with Japanese and foreign banks, although only a small portion of our funding is currently provided under such facilities. Even if we succeed in diversifying our funding sources, committed credit facilities and loans are subject to financial and other covenants and conditions to drawdown, including minimum net worth amounts and ratios, and credit ratings requirements. As such, there is a risk that these sources will be unavailable to us and the risk remains that we will be unable to roll over other short-term funding.

Most of our funding is denominated in yen. For a discussion of short-term and long-term debt, see Note 13 of Item 18. Financial Statements.

SOURCES OF LIQUIDITY

Borrowings from Financial Institutions

Among our diverse borrowing sources are city banks, trust banks, regional banks, life insurance companies, casualty insurance companies, agricultural-related financial institutions and foreign banks. We had borrowing sources from approximately 200 such financial institutions and companies as of March 31, 2005.

Committed Credit Facilities

In an attempt to sustain a high level of liquidity, we have established committed credit lines with a number of financial institutions. Our total committed credit lines were ¥875,797 million and ¥895,805 million as of March 31, 2004 and 2005, respectively. Of these lines, ¥765,608 million and ¥795,935 million were available as of March 31, 2004 and 2005, respectively. Included in these commitment lines are global commitment lines for

ORIX and a number of overseas subsidiaries, totaling ¥65,808 million, with ¥51,552 million available as of March 31, 2005. These committed credit facilities are subject to financial and other covenants and conditions prior to and after drawdown including, in some credit facilities, a requirement that minimum net worth amounts and ratios and certain credit ratings are maintained. Most of our committed credit facilities require the borrower to represent, in connection with any borrowing under the facility, that no material adverse change has occurred since certain dates.

Funding from the Capital Markets

Funding from the capital markets includes straight bonds, CP, MTN and the securitization of lease and other receivables, and equity and equity-related finance.

Straight Bonds

Capitalizing on the expansion of the bond market in Japan, we have actively issued yen-denominated straight bonds in the Japanese market. In order to further diversify funding methods and investors, we issue bonds that are primarily for institutional investors and those that are primarily for individual investors. The balance of outstanding straight bonds (including private placements) issued by us and held by institutional investors in Japan was ¥378,000 million and ¥388,000 million in fiscal 2004 and 2005, respectively. The balance of outstanding straight bonds issued by us and held by individuals was ¥365,000 million and ¥430,000 million in fiscal 2004 and 2005, respectively.

CP

The prohibition on the issuance of CP by finance companies in Japan was eliminated in 1993. In April 1998, the sale of CP in Japan directly to investors was made possible by additional deregulation. We have worked to expand the number of investors in our CP, which includes entities such as asset management companies, life and casualty insurance companies, regional banks, agricultural-related financial institutions, and other financial institutions. The balance of our outstanding CP was ¥420,280 million and ¥528,880 million as of March 31, 2004 and March 31, 2005, respectively. As of March 31, 2005, direct investors in our CP accounted for 77% of the balance of our outstanding CP issued in Japan.

The paperless trading of electronic CP in Japan commenced on March 31, 2003. We were one of the first participants to issue electronic CP. In February 2004, with the expectation of increased diversification of funding and broadening of our investor base, we became the first company in Japan to publicly issue electronic CP to small and medium-sized enterprises. While attempting to control the risks associated with settlement and clearance, we plan to continue to issue electronic CP to broaden our investor base and hopefully to expand the overall market for CP. As of March 31, 2005, all of our outstanding CP issued in Japan was electronic CP.

MTN

For overseas funding operations, in addition to borrowing from local markets, we have sought to increase the diversity of our funding methods through such measures as MTN issuance. As of the filing date of this annual report, ORIX and five overseas subsidiaries are participants in a Multi-Issuer Euro MTN program with a maximum issuance limit of $5 billion. Although the current program expired in mid-July, 2005, ORIX currently intends to renew the program with the same issuance limit in early August 2005. Euro MTN issuance is determined based on the funding needs of our overseas subsidiaries and supervised by our Treasury Department in Tokyo. As of March 31, 2005, the outstanding balance of our MTNs was ¥113,775 million.

Securitization

In January 1992, we became the first company in Japan to securitize leasing assets. Subsequently, we have proceeded with asset securitization in Japan and overseas. As of March 31, 2005, the outstanding balance of securitized assets, including such assets as lease and loan assets, was ¥436,241 million. Of this amount, the portion accounted for as off-balance sheet assets was ¥375,960 million.

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Equity and Equity-Related Finance

In September 1998, we listed our ADSs on the New York Stock Exchange, or the NYSE. In October 1999, we became the first Japan-based company to make a global offering involving the simultaneous issuance and sale of new shares and convertible notes, each registered with the SEC and listed on the NYSE. In that offering, we issued and sold 3.3 million new shares and ¥40 billion (principal amount) in convertible notes due 2005. All of these notes were converted into a total of 3,380,687 Shares by March 2005. As of March 31, 2005, no notes remained outstanding. In December 2001, we conducted another dual offering of new shares and convertible bonds, issuing 1.8 million new shares and ¥28 billion (principal amount) in convertible bonds due 2007.

As part of our continued efforts to diversify funding sources, in June 2002 we issued Liquid Yield Option Notes, with stock acquisition rights, due June 14, 2022 (par value of $1,022 million), and procured $400 million. These notes include a contingent conversion provision that effectively makes conversion more difficult. The issuance was the first of its kind by a Japanese company. These notes were included in the calculation of diluted earnings per share from the third quarter of fiscal 2005.

In October 2003, we filed a universal shelf registration statement with the SEC on Form F-3, permitting offerings into the United States of up to an aggregate maximum offering price of $500 million or the equivalent in:

- senior debt securities;
- subordinated debt securities;
- warrants;
- common stock;
- preferred stock; and
- ADSs.

These securities may be offered separately or together with other offered securities.

Cash and Cash Equivalents

As of March 31, 2005, we had cash and cash equivalents of ¥145,380 million, which were primarily denominated in yen.

LEVELS OF BORROWINGS

Short-term Debt

	As of March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Short-term debt:				
Borrowings from financial institutions	¥ 483,636	¥ 418,991	¥ (64,645)	(13)
Commercial paper	420,280	528,880	108,600	26
Total short-term debt	¥ 903,916	¥ 947,871	¥ 43,955	5

The balance of our short-term debt as of March 31, 2005 was ¥947,871 million, representing 25% of total debt compared to 25% as of March 31, 2004.

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Long-term Debt

	As of March 31,		Change	
	2004	2005	Amount	Percent (%)
	(In millions of yen, except percentage data)			
Long-term debt:				
Borrowings from financial institutions	¥ 1,543,738	¥ 1,790,952	¥ 247,214	16
Bonds	861,942	896,855	34,913	4
Medium-term notes	159,332	113,775	(45,557)	(29)
Payable under securitized lease and loan receivables	97,707	60,281	(37,426)	(38)
Total long-term debt	¥ 2,662,719	¥ 2,861,863	¥ 199,144	7

Long-term debt as of March 31, 2005 was ¥2,861,863 million, representing 75% of total debt, the same percentage as at March 31, 2004. Approximately 60% of long-term debt at March 31, 2005 consisted of borrowings from Japanese banks, insurance companies and other institutional lenders in Japan and from foreign institutional lenders.

As of March 31, 2005, we paid interest at fixed rates on approximately 52% of our long-term debt, while the remainder was subject to floating interest rates, principally based on TIBOR and LIBOR.

For information with respect to the maturity profile of long-term debt and interest rates for short and long-term debt, see Note 13 of Item 18. Financial Statements.

Our funding requirements are not greatly affected by seasonal factors. Demand for funds is sometimes concentrated at the end of each fiscal year as requests for funding from our marketing departments sometimes increase at that time. However, these factors are incorporated into annual funding plans and we do not believe that such demands have a material impact on our funding requirements.

As is typical in the Japanese market, loan agreements relating to short and long-term debt from Japanese banks and some insurance companies provide that we may be required to pledge our assets as collateral against that debt upon request of the lenders if it is reasonably necessary for the lenders to secure their claims. To date, we have not received any requests of this kind from our lenders. In addition, our debt agreements with some banks provide that the banks have the right to offset cash deposited against any short or long-term debt that becomes due, and in the case of a default or some other specified event, against all other debt payable to the bank. In general, there are no restrictions on the use of borrowings. However, in certain cases such as non-recourse loans, borrowings are stipulated for specific purposes.

We have entered into various types of interest rate contracts in managing our interest rate risk. Under interest rate swap agreements, we agree with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. Interest rate swaps with notional principal amounts of ¥366,838 million as of March 31, 2005 were used for hedging purposes as part of our asset-liability management. We have also entered into foreign exchange forward contracts and foreign currency swap agreements in managing foreign exchange risk. As of March 31, 2005, we used foreign exchange forward contracts and foreign currency swap agreements with notional principal amounts of ¥283,600 million, which were principally used to hedge the risk of changes in foreign currency exchange rates. Some swap agreements include a requirement to maintain a certain credit rating. We also use interest rate caps to hedge changes in interest rates, with a notional amount of ¥44,752 million as of March 31, 2005.

Deposits

In addition to short-term and long-term debt, ORIX Trust and Banking accepts deposits, which are used primarily to fund housing loans. The outstanding balance of deposits as of March 31, 2005, was ¥336,588 million, an increase of 15%, or ¥44,043 million, compared to March 31, 2004. For further information with respect to deposits, see Note 14 of Item 18. Financial Statements.

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CASH FLOWS

In addition to cash required for the payment of operating expenses such as selling, general and administrative expenses, as a financial services company, our primary uses of cash are for:

- the payment and repayment of interest and principal of short-term and long-term debt; and
- the purchases of lease equipment, installment loans made to customers, purchases of available-for-sale and other securities and cash outlays for real estate development projects.

The use of cash, therefore, is heavily dependent on new business volumes for our operating assets. When new business volumes for such assets as lease and loans increases, we require more cash to meet these requirements, while a decrease in assets results in a reduced use of cash and an increase in repayment of debt.

In addition to the sources of liquidity described above, we also have cash inflows from the principal payments received under direct financing leases and installment loans, and proceeds from the sales of investment securities and operating lease assets. For cash flow information regarding interest and income tax payments, see Note 3 of Item 18. Financial Statements.

Year Ended March 31, 2005 Compared to Year Ended March 31, 2004

Cash and cash equivalents in fiscal 2005 decreased by ¥6,855 million to ¥145,380 million due mainly to outflows associated with increases of lease equipment and installment loans made to customers and inflows from securitization and debt.

Cash flows from operating activities decreased to ¥126,467 million in fiscal 2005 compared to ¥152,812 million in fiscal 2004 due mainly to inflows associated with the increase in net income and increase in deposits from lessees, which offset the outflows associated with the decrease in policy liabilities related to the payments corresponding to the maturity of single premium endowment insurance and increase in trading securities.

Cash flows from investment activities was ¥408,004 million of outflows in fiscal 2005, while net cash provided by investment activities was ¥123,978 million of inflows in fiscal 2004. This was due to the increase in installment loans made to customers as a result of the expansion of loans to corporate customers, including non-recourse loans, as well as the increase in purchases of available-for-sale securities.

Cash flows from financing activities was ¥274,343 million of inflows in fiscal 2005, an increase of ¥602,627 million compared to fiscal 2004, due to the increase in debt as a result of the increase in operating assets.

Year Ended March 31, 2004 Compared to Year Ended March 31, 2003

Cash and cash equivalents in fiscal 2004 decreased by 26%, or ¥52,442 million, to ¥152,235 million from fiscal 2003, due primarily to a lower level of net proceeds from securitization of lease and loan receivables compared with fiscal 2003 and a continuing repayment of debts due to the decrease of operating assets.

Cash flows from operating activities declined by ¥57,338 million, to ¥152,812 million, in fiscal 2004 compared to ¥210,150 million in fiscal 2003. While net income increased by ¥23,777 million, to ¥54,020 million, in fiscal 2004 compared with ¥30,243 million in fiscal 2003, the decrease in net cash provided by operating activities was due mainly to a decrease in write-downs of long-lived assets and write-downs of securities, which are expenses not associated with cash payments, and a decrease of equity in net (income) loss of affiliates contributed from investment in KLI. In addition, policy liabilities decreased ¥15,771 million in fiscal 2004 compared with an increase of ¥5,889 million in fiscal 2003.

Cash flows from investing activities decreased by ¥58,972 million, to ¥123,978 million, in fiscal 2004 compared to ¥182,950 million in fiscal 2003. While cash outflows for the purchase of lease equipment, installment loans made to customers and the purchase of available-for-sale securities all declined as a result of lower business volumes in comparison with fiscal 2003, inflows also declined due primarily to a decrease in net proceeds from securitization of lease and loan receivables and a reduction in proceeds from sales of available-for-sale securities.

Cash flows from financing activities in fiscal 2004 was ¥328,284 million compared to ¥542,040 million in fiscal 2003 due primarily to a lower level debt repayment resulting from the reduced level of operating assets.

COMMITMENTS FOR CAPITAL EXPENDITURES

As of March 31, 2005, we had commitments for the purchase of equipment to be leased in the amount of ¥8,538 million. For information on commitments, guarantees and contingent liabilities, see Note 29 of Item 18. Financial Statements.

OFF BALANCE SHEET ARRANGEMENTS AND

AGGREGATE CONTRACTUAL OBLIGATIONS

USE OF SPECIAL PURPOSE ENTITIES

As one method of raising funds to finance our operations and investment activities, we periodically securitize certain lease receivables, loan receivables and investment securities. These securitizations allow us to access highly liquid and efficient markets, provide us with alternative sources of funding and diversify our investor base. For the past three fiscal years, securitization averaged approximately 10% of our total funding, which includes long and short-term debt, deposits and off-balance funding.

In the securitization process, the securitized assets are sold to special purpose entities, or SPEs, which issue asset-backed securities to investors. SPEs may be organized as trusts, partnerships or corporations. Our use of SPEs for securitizations is consistent with conventional practices in the securitization market, to isolate the receivables for the benefit of investors. To insulate investors from creditors of other entities, including the seller of the assets, SPEs can be structured to be bankruptcy-remote, and if structured in this manner (and subject to certain other conditions) the pooled assets are removed from the balance sheet. Certain of the SPEs that we utilize meet the definition of a qualifying special purpose entities, or QSPEs, as defined in FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and, in accordance with FASB Statement No. 140, we do not consolidate the assets and liabilities of the QSPEs. These SPEs are also designed so that investors have no recourse against our other assets in the event of any failure of payment on the pooled assets. In addition, we do not make any guarantees to investors for payment in these transactions. Therefore, when we securitize assets in this manner, we do not have continuing exposure to the performance of such assets other than those recognized as subordinated residual interests on our consolidated balance sheets. We may repurchase a portion of the assets that we securitized as required under the terms of the contract, and the event triggering the repurchase, such as the prepayment of secured assets or the existence of individual assets that do not satisfy the terms and conditions required, is outside of our control. From time to time, we may act as an investor, servicer or administrator in SPE transactions. The effects of these transactions are fully reflected in our consolidated financial statements.

We do not dispose of troubled leases, loans or other problem assets through unconsolidated SPEs. None of our officers, directors or employees holds any equity interests in these SPEs or receives any direct or indirect compensation from them. The SPEs do not own any Shares or other equity interests and no contractual rights permitting the SPEs to acquire our Shares or other equity interests exist.

We expect to continue to utilize SPE structures for securitization of assets as part of our funding diversification strategy. For further information on our securitization transactions, see Note 9 of Item 18. Financial Statements.

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Investment Products

We provide investment products to our customers that employ a contractual mechanism known as a *kumiai* in Japan, which results in a type of SPE. We arrange and market *kumiai* products to investors as a means to finance the purchase of aircraft or other large-ticket items to be leased to third parties. A portion of the funds necessary to purchase the item are contributed by such investors, while the remainder is borrowed by the *kumiai* from one or more financial institutions in the form of a non-recourse loan. The *kumiai* investors (and any lenders to the *kumiai*) retain all of the economic risks and rewards in connection with the purchase and leasing activities of the *kumiai*, and all related gains or losses are recorded on the financial statements of investors in the *kumiai*. We are responsible for the arrangement and marketing of these products, and may act as servicer or administrator in *kumiai* transactions. Fee income for arranging and administering these transactions is recognized in our consolidated financial statements. In *kumiai* transactions, we do not guarantee or otherwise have any financial commitments or exposure with respect to the *kumiai* or its related SPE and the assets of such are not reflected on our balance sheet.

Other Financial Transactions

We occasionally make loan, lease, equity or other investments in SPEs in connection with transactions involving aircraft leasing, ship financing, and non-recourse loan origination for real estate and investment funds. All transactions involving use of SPE structures are evaluated to determine if we hold a beneficial interest that would result in our being defined as the primary beneficiary of the SPE pursuant to FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities . In the event that we retain substantive economic risks and rewards associated with these transactions, which we conclude to represent the primary beneficial interest in the SPEs, the SPEs are fully consolidated into our financial statements, and in all other circumstances our loan, lease, equity or other investments are recorded on our consolidated balance sheets as appropriate.

We have adopted the requirements of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125, which applies prospectively to all securitization transactions occurring after March 31, 2001. We have adopted the requirements of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities. See Note 10 of Item 18. Financial Statements for further information concerning our SPEs and the likely effects of the adoption of this Interpretation on our results of operations or financial position.

COMMITMENTS

The table below set forth the maturities of guarantees and other commitments as of March 31, 2005.

	Amount of commitment expiration per period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
	(In millions of yen)				
Commitments:					
Guarantees	¥ 117,186	¥ 34,698	¥ 45,325	¥ 11,968	¥ 25,195
Committed credit lines and other	401,252	140,113	80,851	22,726	157,562

Total commercial commitments	¥ 518,438	¥ 174,811	¥ 126,176	¥ 34,694	¥ 182,757

For a discussion of commitments, guarantee and contingent liabilities, see Note 29 of Item 18. Financial Statements.

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AGGREGATE CONTRACTUAL OBLIGATIONS

The tables below set forth the maturities of contractual cash obligations as of March 31, 2005.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
	(In millions of yen)				
Contractual cash obligations:					
Deposits	¥ 336,588	¥ 172,764	¥ 98,781	¥ 65,043	¥
Long-term debt	2,861,863	728,171	1,048,137	784,666	300,889
Operating leases	5,032	1,394	1,764	628	1,246
Unconditional purchase obligations	8,538	8,523	15		
Unconditional non-cancelable contracts	8,616	3,409	5,078	129	
Interest rate swaps:					
Notional amount (floating to fixed)	345,356	132,370	102,319	86,654	24,013
Notional amount (fixed to floating)	21,482	10,830	500		10,152
Total contractual cash obligations	¥ 3,587,475	¥ 1,057,461	¥ 1,256,594	¥ 937,120	¥ 336,300

Other items excluded from the above table are deposits from lessees, trade notes and accounts payable policy liabilities and caps held. The amounts of such items were ¥98,415 million, ¥244,492 million, ¥550,880 million and ¥44,752 million, respectively, as of March 31, 2005. For information on pension plans and derivatives, see Notes 16 and 26 in Item 18. Financial Statements. We expect to fund these and other commitments from one, some or all of our diversified funding sources depending on the amount, time to maturity and other characteristics of the commitments.

For a discussion of debt and deposit-related obligations, see Notes 13 and 14 of Item 18. Financial Statement.

RECENT DEVELOPMENTS

ECONOMIC CONDITIONS

The world economy was relatively healthy throughout fiscal 2005 led by the United States and China. In the U.S. economy, employment continued to improve and consumer confidence remained high. Capital expenditures continued to show upward expansion, but the pace of growth slowed as a result of higher interest rates and the steep rise of crude oil prices. Among Asian economies, China showed significant expansion, and growth rates of other Asian countries were also above levels of the previous year. However, after the summer period, exports in IT and digital industries slowed, and the rate of economic expansion declined in Korea and Taiwan. In the European economy, domestic demand that experienced a slow recovery started to show positive signs with gradual expansion.

On the other hand, the Japanese economy showed signs of expansion in the first half due to growth in exports and capital expenditures, but it started to show indications of economic downturns due to sluggish growth in the world economy and inventory adjustments, which took place after the summer period. However, over the long term it appears that the Japanese economy has bottomed out as major financial institutions have made progress with the disposal of their non-performing loans.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2003, FASB Statement No. 150 (Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity) was issued. This Statement requires financial instruments within its scope to be classified as liabilities (or assets in some circumstances). This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003, except for certain mandatorily redeemable financial instruments. In addition, certain provisions in this Statement were deferred indefinitely pending further Board action. Adoption of this Statement did not have a significant effect on our results of operations or financial position.

In December 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) No. 03-3 (Accounting for Certain Loans or Debt Securities Acquired in a Transfer). SOP No. 03-3 requires acquired loans to be recorded at fair value and prohibits carrying over or creation of valuation allowances in the initial accounting for all loans acquired in a transfer that have evidence of deterioration in credit quality since origination, when it is probable that the investor will be unable to collect all contractual cash flows. SOP No. 03-3 limits the yield that may be accreted to the excess of the undiscounted expected cash flows over the investor s initial investment in the loan. The excess of the contractual cash flows over expected cash flows may not be recognized as an adjustment of yield. Subsequent increases in cash flows expected to be collected are recognized prospectively through an adjustment of the loan s yield over its remaining life. Decreases in expected cash flows are recognized as an impairment. SOP No. 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. Adoption of this SOP will not have a significant effect on our results of operations or financial position.

In July 2004, EITF Issue No. 04-8 (The Effect of Contingently Convertible Instruments on Diluted Earnings per Share) was issued. EITF Issue No. 04-8 requires that contingently convertible debt instruments, or Co-Cos, which had not been recognized as diluted potential common shares unless the conditions to exercise the rights had been met under FASB Statement No. 128 (Earnings per Share) be included in diluted earnings per share computation as if Co-Cos could be converted from the date of issuance regardless of whether the conditions to exercise the rights have been met. EITF Issue No. 04-8 is effective for reporting periods ending after December 15, 2004. We adopted this issue in fiscal 2005.

In December 2004, FASB Statement No. 153 (Exchange of Nonmonetary Assets an amendment of APB Opinion No. 29) was issued. This Statement amends the guidance in Accounting Principal Board (APB) Opinion No. 29 (Accounting for Nonmonetary Transactions), eliminating the exception to fair value accounting for nonmonetary exchanges of similar productive assets and replaces it with a general exception to fair value accounting for nonmonetary exchanges that do not have commercial substance. This Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Adoption of this Statement will not have a significant effect on our results of operations or financial position.

In December 2004, FASB Statement No. 123 (revised 2004) (FASB Statement No. 123(R)) (Share-Based Payment) was issued. FASB Statement No. 123(R) supersedes APB Opinion No. 25 (Accounting for Stock Issued to Employees) and amends FASB Statement No. 123. This Statement requires us to measure and record compensation expense for stock options and other share-based payment based on the instruments fair value. We are required to adopt this Statement for fiscal years beginning after June 15, 2005 using a modified version of prospective application or may elect to apply a modified version of retrospective application. We expect to adopt this Statement using the modified version of prospective application and adoption of this Statement will not have a significant effect on our results of operations or financial position. For further information on stock-based compensation, see Note 1(n) and 17 of Item 18. Financial Statements.

PENSION FUNDS

ORIX and certain subsidiaries have a common employees pension fund plan, or the EPF Plan, which is a defined benefit pension plan established under the Japanese Welfare Pension Insurance Law, or JWPIL. The EPF Plan was composed of a substitutional portion based on the pay-related part of the old-age pension benefits prescribed by the JWPIL (similar to social security benefits in the United States) and a corporate portion based on a contributory defined benefit pension arrangement established at the discretion of each employer. We and our employees were exempted from contributions to Japanese Pension Insurance, or JPI, that would otherwise be required if we had not elected to fund the substitutional portion of the benefit through the EPF Plan. Our EPF

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Plan, in turn, paid both the corporate and substitutional pension benefits to retired beneficiaries out of EPF Plan assets. Benefits of the substitutional portion were based on a standard remuneration schedule determined by the JWPIL, but the benefits of the corporate portion were based on a formula determined by us. In June 2001, the JWPIL was amended to permit us to separate the substitutional portion from our EPF Plan and transfer the related benefit obligations and assets to the government. The separation process occurred in four phases, beginning with application for separation by us followed by acceptance by the government.

In January 2003, the Emerging Issues Task Force, or EITF, of the FASB reached a final consensus on Issue No. 03-2, or EITF 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities. This consensus, as reflected in EITF 03-02, requires us to record the separation process upon completion of the four-step transfer process to the government.

In fiscal 2004, we received government approval for the separation, and transfer to the government, of the substitutional portion of benefit obligations under our EPF Plan related to future employee services. We accounted for the transfer to the Japanese government of the substitutional portion of our EPF Plan in fiscal 2005 in accordance with EITF 03-2. As specified in EITF 03-2, the entire separation process was to be accounted for at the time of completion of the transfer to the government of the benefit obligations and related plan assets as a settlement in accordance with FASB Statement No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits. As a result of the completion of the transfer, we recognized a gain on a subsidy from the Japanese government of ¥12,425 million, a gain on the reversal of retirement benefit liabilities as a result of derecognition of previously accrued salary progression at the time of settlement for the substitutional portion of ¥2,618 million, and a loss of ¥14,470 million to liquidate the plan, which mainly included amortization of unrecognized actuarial loss. The net impact of the above was a gain of ¥573 million, which was recorded as a reduction in selling, general and administrative expenses in the consolidated statement of income.

RISK MANAGEMENT

OVERVIEW

We consider management of a variety of risks essential to conducting our businesses and to increasing our corporate value. Accordingly, through the development of a credible information network we have designed our risk management system in a manner that permits us to identify, measure, analyze and evaluate our risks, and to set appropriate policies and limits to manage and hedge such risks. We attempt to control these risks by utilizing a risk management system that manages both overall risk as well as specific risks associated with individual transactions, businesses and overseas geographical regions.

New Components of Risk Management

As part of our efforts to improve profitability, in recent years we have developed new business lines, such as real estate-related businesses and investment banking-related businesses, in addition to our traditional businesses, such as leasing and lending, which are in essence the provision of debt finance. In order to more effectively allocate management resources in light of our diversified business models and the consequent changes in our risk profiles, we are incorporating new components into our risk management system, focusing in particular on the strengthening of risk monitoring.

Risk is monitored for each business and for each type of risk. Our monitoring includes details of where capital is used, comparisons of performance with basic guidelines, analysis of changes over time and deviation from initial plans, and evaluation of profitability with respect to risk capital. Based on individual risks, the monitoring also includes progress reports on particular projects and investments, including the status of exit strategies, comprehensive comparative analyses of projections and actual performance, and analyses of changes over time in important targets. The results of our monitoring are reported to top management on a quarterly basis and are part of the fundamental data used to make strategic decisions and allocate capital to various businesses.

In order to measure risk, different methods have been adopted in accordance with the characteristics of the assets and operations associated with each business. We make changes in the methods used to measure risk as a result of changes in business models or the business environment.

Risk Assessment

ORIX s business activities involve various risk factors, and the principal risks vary for each business line. We discuss below the systems and functions of our risk assessment and the features of our risk assessment and monitoring in accordance with the characteristics of individual businesses.

Systems and Functions Supporting Risk Assessment

Our risk management system is comprised of four principal levels. The first level consists of the sales and marketing departments. Our sales and marketing staff are responsible for a range of risk management functions, including implementing an initial credit analysis and evaluation with respect to potential transactions, and monitoring risks and managing and collecting problem assets with respect to originated transactions.

At the second level, we have four specialized groups responsible for risk management, consisting principally of the Risk Management Headquarters, which is responsible for evaluating and monitoring transactions proposed by our sales and marketing departments and for monitoring operating assets and quantifying risk, the Treasury Department, which is in charge of risk related to procurement of funds, the Legal Department, which is in charge of legal risk, and the Compliance Department, which promotes compliance.

The third level of our risk management system is our Investment and Credit Committee, or ICC, which is comprised of top management, including the CEO, COO, CFO and the executive officer in charge of investment and credit. The ICC meets on average three times a month primarily to review and approve or reject individual credit transactions and investments that exceed certain specified credit or investment amounts.

Our monthly strategy meetings add a fourth level to our risk management system. These meetings perform a particularly important role in the monitoring and control of the various businesses in which we are involved. Separate meetings are held by top management with the executives in charge of individual departments or business units to discuss matters such as the state of achievement of targets and changes in the business environment. Matters considered vitally important to our operations are decided on by the ICC and reported to the board of directors as appropriate.

Risk Management of Direct Financing Leases and Installment Loans

The principal risk in direct financing leases and installment loans is the credit risk associated with the customer and its business. Risk management in this field consists of three elements: (i) credit evaluation for each transaction, (ii) implementation of corrective actions for the management of problem assets and (iii) portfolio management. Our direct financing lease and installment loan businesses are mainly conducted in our Corporate Financial Services segment, the Americas segment and the Asia, Oceania and Europe segment.

Credit Evaluation for Each Transaction

Staff members in ORIX s sales and marketing departments are authorized to approve individual credit transactions within specific limits, which include both existing and potential new credit, based on the seniority of the relevant staff member. If a proposed transaction exceeds such limits, it must be referred to the Risk Management Headquarters for approval. If the transaction value exceeds the approval limit of the Risk Management Headquarters, the matter is referred to the ICC for approval. In connection with each potential credit transaction, the relevant sales and marketing department and the Risk Management Headquarters each performs a comprehensive customer credit analysis and evaluation based on the relevant customer s financial position, transactional performance and potential cash flow. The analysis and evaluation also covers the collateral or guarantees, terms and conditions and potential profitability of the transaction.

The Risk Management Headquarters regularly conducts by-country, by-region and by-industry evaluations to minimize exposure to potentially high-risk markets.

Corrective Actions for the Management of Problem Assets

Our Risk Management Headquarters obtains information on bankruptcies, dishonored bills and corporate performance from a number of credit data banks on a daily basis. This information is entered into a central database, which is used to prepare industry analysis reports and warning reports that are provided to relevant sales and marketing departments to keep them current on the condition of important customers. In cases where concerns associated with certain industries or customers arise, we take measures that may include freezing the extension of new credit, or reducing our existing exposure, with respect to the industry or customer in question.

Preliminary reports on problem assets are prepared and delivered to the Receivables Administration Office and top management depending on the size of the asset and all pertinent data on such problem assets are entered into our proprietary database. Our sales and marketing departments work together with our Receivables Administration Office to maintain accurate records of delinquencies and to collect individual problem assets. Collection progress is reported to different levels of management depending on the size of the asset. Furthermore, our sales and marketing departments make regular reports to top management on the amount and expected recovery of individual nonperforming assets exceeding specified amounts. In addition, our Receivables Administration Office carries out a detailed analysis of all problem assets reported each month and on the conditions of those assets, and reports this analysis to top management and related departments monthly.

In making collections, we believe an early response is extremely important. When information is received regarding the emergence of nonperforming assets, our Receivables Administration Office takes immediate action, in cooperation with the relevant sales and marketing departments, to take steps to secure collateral or other guarantees and to begin the collection process. The Receivables Administration Office plays an important role in the collection process by drawing on its accumulated experience in collections and, working closely with the sales and marketing departments, providing such departments with appropriate guidance, beginning with early first notices and extending to compulsory legal measures including seizure of collateral pledged against the exposure and other assets.

Portfolio Management

In addition to the risks inherent in each individual credit extension and transaction, our Risk Management Headquarters regularly manages the credit risks associated with portfolios of assets. For example, both in Japan and overseas, we regularly evaluate our asset portfolios involving major borrowers by each transactional category by industry and by type of collateral or guarantee. We also monitor the state of concentration of specific customers and industries.

We further classify and manage overseas asset portfolios by region, country, transactional currency and other characteristics. Assessments of each of our subsidiaries asset quality and other information are reported regularly to top management.

Risk Management of Operating Leases

A principal risk relating to operating leases in addition to credit risk is the risk of fluctuation of residual value of the leased property. Credit risk management is discussed above. Here we discuss managing the risk of fluctuation of residual value of the leased item, which is a characteristic of operating leases. Operating leases are mainly located in the Rental Operations segment, Automobile Operations segment and portions of the Asia, Oceania and Europe segment.

Residual Value Risk Management

In order to control fluctuations in residual value, we monitor inventories of leased items, market environments and the overall business environment.

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Some operating lease items such as ships or aircraft are classified as long-lived assets, but may only be leased out for a few years and we bear the residual value risk for these items. We primarily limit our ship operating leases to general purpose ships that are relatively easier to repossess and re-lease. We finance larger ships that may have specific uses, but do not own them, as we do in the case of operating leases. For aircraft, as a rule, we have limited our inventory primarily to narrow-bodied aircraft, which are relatively versatile and easy to lease. We monitor the market values of these ships and aircraft and sell assets as necessary or desirable to reduce our exposure to downward trends in the market or take advantage of upward trends.

Risk Management of Real Estate-Related Businesses

The activities of our real estate-related operations consist principally of the development of residential condominiums, the development and leasing of commercial real estate, as well as the operation of hotels, golf courses and a training facility, and financing operations for these real estate-related businesses. To accompany the expansion of our real estate-related businesses, we have attempted to create a comprehensive system within the ORIX Group to analyze and evaluate various real estate-related transactions. This business is handled mainly by the Real Estate-Related Finance segment and Real Estate segment.

We attempt to control or mitigate risks associated with our real estate-related businesses by drawing on what we believe are our strengths in the following areas.

Experience in Real Estate Operations. We have many years experience in real estate operations. We believe we have accumulated expertise in evaluating the cash flows of office buildings, commercial buildings and other types of real estate, as well as in articulating the risks and opportunities inherent in real estate operations.

Real Estate Evaluation Specialists. We are able to quickly obtain real estate appraisals and engineering reports from our internal real estate specialists working in the Real Estate Appraisal Group of our Risk Management Headquarters. This group includes a total of 21 certified real estate appraisers and assistant real estate appraisers. In addition, the Construction Management Section of ORIX Real Estate includes 13 certified Class I architects.

Credit Evaluation Experience. We believe that we have accumulated substantial know-how in evaluating the credit of prospective tenants, general contractors and other related parties.

Access to Information. We have the ability to obtain detailed information relating to various aspects of real estate due to the know-how of subsidiaries that specialize in property management and due diligence with first-hand access to such information.

Specialist Cooperation. We believe that we can make quick real estate-related investment decisions because our management structure facilitates close cooperation among a number of our specialist groups, including those responsible for legal, accounting, tax and compliance issues.

Real estate-related business matters are decided by the ICC, which ascertains various risks including reputation risk, taking into account the opinions and valuations of specialized departments based on a number of indices for measuring profitability.

Our real estate portfolios are reported regularly to top management at their monthly strategy meetings and to the ICC, and management is based on factors such as the structure of the transaction, type of property and location.

In real estate-related business transactions, a heavy emphasis is placed on the monitoring of business strategies and schedules. When changes in plan or fluctuations in revenues or schedules are observed, the business strategy is reevaluated. The evaluation of performance during regular monitoring is also used as an element in the calculation of risk capital.

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Additionally, by monitoring risk according to the characteristics of each business in addition to comparing initial projections and actual performance, we work toward controlling or reducing risk. Examples of factors we monitor are, in the case of our non-recourse loan business, the loan-to-value, or LTV, spread or subordination ratio; in the case of our residential condominium business, the completed inventory, sales period and profit margin; and in the case of our development, leasing and management operations, the schedule, holding period and profits.

Risk Management of Investment Operations

ORIX is involved in the expansion of its investment operations such as private equity investment, venture capital investment, and corporate rehabilitation business. These businesses are located primarily in the Other segment.

In order for us to ensure that the checks and balances in our operations are more effective, we examine new business transactions from perspectives different from those traditionally employed in credit evaluations. For example, we may consider the overall viability of a particular business along with its investment and financing scheme. In order to examine new business transactions from different perspectives, we make use of our accounting, tax, and legal specialists for risk analysis and asset evaluations.

In our investment operations we believe that monitoring of business strategy and schedule is an important element of risk management. We reexamine our business strategy when we identify changes in factors such as investment strategies and value-enhancing events, or fluctuations in revenues and schedules. Performance evaluation by monitoring is also used as an element in the calculation of risk capital.

Regular reports on our portfolio of investments are made to the monthly strategy meeting and the ICC. We use a system whereby changes in distributions in assets and risk capital are identified and analyzed according to different categories, by exit strategy, by transaction period, by transaction balance, by industry, by country, and by investment share, thereby helping us to control and reduce risk.

Risk Management of Investment in Securities

Stock and Bond Valuation Loss Risk Management

Our sales and marketing departments in Japan and Group companies in Japan and overseas that make investments in the equity or debt securities of other companies, along with our Risk Management Headquarters in Tokyo, monitor market trends and the condition of those companies which allows for a quick response to mitigate market risks associated with those investments. A substantial portion of the marketable equity securities we hold consists of those held to maintain our business relationships in Japan. As with general credit risk management, our sales and marketing departments monitor the market environment, operating results and financial condition of the companies in which we invest, and our Risk Management Headquarters provides credit information and industry analysis reports to our sales and marketing departments. Based on information on the unrealized gains or losses of the securities and the probability of companies defaulting on their obligations, our Risk Management Headquarters makes monthly recommendations, which may include the sale of securities or the conduct of more detailed analysis of particular companies.

In connection with investment in securities by ORIX Life in Japan and ORIX USA Corporation, or OUC, in the United States, our investment departments regularly monitor interest rate policy, economic conditions, and securities and financial market trends. We also analyze on a daily basis price movements of securities, profits and losses on each investment and financial conditions of companies in which we invest and other factors. Our risk management departments review and compare daily reports against internal guidelines, and macro and microeconomic conditions, while the risk management departments verify that our guidelines are being followed properly. The investment departments take actions based on our approved guidelines for conducting sales of a security to recognize a gain, to reduce losses and to reduce positions.

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Risk Management Relating to Funds Procurement

Liquidity Risk Management

Liquidity risk arises from the risk that we will have insufficient funds, or be unable to access sufficient funding, to meet our business commitments or to pay back our obligations as they become due, which could result in a payment default on our borrowings. We manage liquidity risk by diversifying our funding sources, establishing committed credit lines with financial institutions and adjusting levels of short and long-term funding taking into consideration prevailing market conditions. As part of our asset-liability management, or ALM, system, we also use cash flow maps to measure and monitor liquidity risk.

Interest Rate Risk Management

ORIX implements ALM for the purpose of maintaining stability in its financial base when changes occur in the financial environment. A report concerning ALM is submitted to the monthly strategy meeting by the Treasury Department. The monthly strategy meeting provides an opportunity for top management to make prompt decisions about interest rate risk based on the financial environment and other factors.

Our principal overseas subsidiaries regularly submit reports on their respective asset-liability situations to the Treasury Department in Tokyo permitting us to manage interest rate risks of assets and liabilities denominated in each foreign currency.

We also use interest-rate swaps and caps to hedge against changes in interest rates.

Exchange Rate Risk Management

We employ foreign currency borrowings, foreign exchange forward contracts and foreign currency swap agreements to hedge risks associated with certain transactions and investments denominated in foreign currencies. Similarly, each of our overseas subsidiaries structures its liabilities to match the currency denomination of assets in its respective region. We manage certain positions involving foreign currency risk on an individual transaction basis.

Derivative Risk Management

We have established comprehensive market risk management rules for reducing market risk and maximizing profits by the appropriate management of interest and exchange rate fluctuation risk in financial markets. Based on rules for the entire ORIX Group and regulations specific to each Group company, we have established an internal control system for derivatives transactions such as interest rate swaps, foreign currency swaps, interest rate caps, forward exchange contracts, and forward rate agreements for hedging purposes, for clarifying the risks that need to be hedged with derivatives and which derivatives should be used, and for ensuring that responsibility for execution, evaluation and certain administrative tasks relating to these derivatives transactions is allocated to separate departments.

Legal Risk Management

Transactional legal risk is a major type of legal risk that we face in our business. Transactional legal risk includes the risk that the contracts into which we enter contain unintended conditions, are not legally effective or cannot be carried out as stipulated in the contract, or that the transactions in which we participate involved activities that violate, or are not in strict compliance with, applicable laws. When we consider a new transaction, new product development or other new business activities, our risk management system requires an examination of these types of legal risks.

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In an attempt to avoid, prevent and mitigate such legal risks, we require that our Legal Department be involved in transactions from the early stages when a transaction is first considered through the documentation process in which transaction-related contracts are prepared for internal review and final approval. Contracts may not be approved internally unless they follow our prescribed rules and guidelines. Our Legal Department is also involved in the process for the approval of such contracts. Depending on the size and importance of a given transaction, we may also utilize the expertise of outside lawyers.

We monitor possible changes in the law by collecting information on proposed legal reforms, as such information becomes available. As necessary or appropriate, we may also initiate preparatory measures to address the requirements of new laws that are expected to take effect in the future and implement steps to ensure that we are, and continue to be, in compliance with new laws as they take effect.

To ensure that proper legal procedures are followed in connection with legal disputes and litigation, we require that our Legal Department be involved in such disputes and litigation, including lawsuits that have been, or are expected to be, brought against us and lawsuits that we bring, or expect to bring, against third parties.

Operational Risk Management

As our business has expanded in recent years, the importance of operational risk management has increased as a significant component of overall risk management. Operational risk refers generally to the risk arising in connection with the computer networks that we use, the administrative procedures and day-to-day operational procedures that we have established and any breakdown in these networks or procedures, or the systems that support them, as well as the risk of reputational damage arising from such a breakdown. As part of operation risk management, we are attempting to further strengthen our internal control and compliance functions.

Specific steps taken by us to strengthen internal control, and manage and reduce operational risk, include evaluation and monitoring of risk by the Risk Management Headquarters, monitoring of administrative processes by the Internal Audit Department, and maintenance and improvement of internal control systems relating to financial reporting by the Internal Control Coordination Project Team and continuous upgrading of computer systems by ORIX Computer Systems.

Monitoring of business processes by the Internal Audit Department is performed by regular monitoring of compliance with internal rules and the implementation of self-evaluations based on an annual internal audit plan. ORIX evaluates its current internal controls based on these monitoring processes, and makes improvements as necessary.

Additionally, for strengthening compliance functions, the Compliance Department has distributed to all employees in Japan and higher-ranking officers in its overseas subsidiaries a compliance manual prepared in fiscal 2001. We began compliance training in fiscal 2002, and by implementing annual compliance training thereafter, employees have been trained and their awareness of the importance of compliance has increased. Based on this training compliance adherence status an analysis can be implemented, and improvements made to construct a more effective compliance system.

RISK MANAGEMENT OF INDIVIDUAL TRANSACTIONS, BUSINESSES AND GEOGRAPHICAL REGIONS

In addition to the risk management activities described above, we also attempt to manage specific risks associated with some types of particular transactions, certain individual businesses and the United States.

Direct Financing Leases

We consider direct financing leases to be in essence uncollateralized because ordinarily the only collateral provided is the leased item itself, and we generally assume that we will be able to recover only a portion of the residual value of the item in the event of a default. In addition, our customers in this business are generally small and medium-sized enterprises, many of which have not been rated by an independent credit agency. Therefore, substantial expertise is required to evaluate such unrated customers properly. When carrying out our evaluations, we pay close attention to factors that determine the basic sustainability of a business including profitability, cash flow, management quality and future macro prospects of the relevant business line or industry in which the customer operates.

General Corporate Loans

Our first priority in evaluating whether to provide a general corporate loan is the creditworthiness of the borrower. We ordinarily require, as a condition to such loans, collateral, which is primarily real estate, but can include securities, deposits or other forms of collateral. Collateral appraisals are conducted by the Real Estate Appraisal Group in our Risk Management Headquarters or, as necessary or appropriate, by independent appraisers.

We also carefully analyze and monitor both the use of the funds to be provided and the means of the borrower to repay those funds in the future. In order to verify that funds will be used as proposed by a particular borrower, we directly contact the potential recipient of the funds to confirm such use. In some cases, we will make payments directly to the final recipient of the funds to further ensure that the funds are not used by the borrower for another purpose. In order to improve the probability that we will be repaid in full, we evaluate the potential return to be generated from the funds that we provide, and carry out stress tests and simulations based on both the borrower s proposed use of funds and our own estimations of returns to be generated by the proposed use of funds.

Non-recourse Loans

Non-recourse loans are loans for which we are only entitled to cash flows generated from the property or project that the loan is funding. Therefore, the ability to assess cash flows of properties and projects under consideration is in our opinion the most important skill needed in this business. We have many years of experience in real estate operations. From this experience, we believe we have accumulated expertise in evaluating cash flows of office buildings, commercial buildings and other types of real estate. We use discounted cash flow analyses, stress testing and simulations while taking into account loan-to-value ratios, debt service coverage ratios and different potential return simulations to analyze potential risks of each real estate property and project we consider for a non-recourse loan.

Housing Loans

ORIX Trust and Banking has received a license from the Prime Minister and is regulated by the Financial Services Agency. This company complies with the laws and regulations applied by the authorities and manages its risk as described below.

ORIX Trust and Banking specializes in providing three main types of housing loans: (i) housing loans for self-occupancy purposes; (ii) loans for the purchase of one-room condominium units for investment purposes; and (iii) loans for the purchase of rental apartment buildings.

ORIX Trust and Banking carries out a detailed examination of each potential client s ability to repay in line with such client s particular lifestyle after conducting an in-person interview. In addition, evaluations are conducted on relevant real estate market information and estimates are made on cash flow expected to be derived from the real estate property and on the value of the collateral. Our housing loan operations may be differentiated in this way from large city banks which typically employ a standard scoring system.

When we make housing loans to individuals for the purchase of property for self-occupancy purposes, we place particular emphasis on the stability of the borrower s disposable income and analyze the existence of other

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debts and expenses, such as automobile loans, tax burden, insurance costs and children s educational expenses. We also analyze future pension income, the potential value of the borrower s parents home and the possibility of inheritance of assets of that nature as well as other factors that may affect the borrower s ability to repay over the life of the loan. In the case of borrowers who are refinancing from other financial institutions, we examine past housing loan payment history in addition to the borrower s credit quality.

Borrowers of our housing loans provided for the purchase of single condominium units for investment purposes, are primarily doctors, civil servants and managers from listed companies with relatively high salaries. We carry out stress tests on borrowers that have several properties to determine the extent to which the rental income can drop before they will be unable to make their payments. Also, our sales and marketing departments pay particular attention not only to the selection of the companies that sell the investment properties and their sales history, but also to such matters as the building maintenance company to be used once the building is completed and any other information we deem relevant. In addition, potential borrowers are also evaluated based on their awareness of their responsibility when borrowing such loans and their plans for future investments.

Before we make a loan to finance the purchase of an apartment building, we perform a rental simulation to estimate vacancy rates based on the surrounding market, the impact of a rise in interest rates and the future costs associated with maintenance of the building. Through this simulation, we evaluate the potential borrower s ability to repay.

When a borrower has outstanding loans from us in excess of a specified amount, we conduct quarterly evaluations of the borrower s income and the occupancy rate of the borrower s rental units to evaluate the borrower s ability to repay. We also evaluate the value of the collateral underlying the loan. For loans that have gone into default, or for which there are concerns about the borrower s ability to repay, we evaluate the reason for the problem, the borrower s total liabilities and the income from the borrower s properties, and take measures that we deem appropriate for collection.

Consumer Card Loans

We provide non-collateralized consumer card loans with limits in principle ranging from ¥500,000 to ¥3 million, although existing customers with higher credit standing may be eligible for loans of up to ¥5 million. Based on over 15 years of experience and a proprietary scoring system, we make the initial evaluation of a potential customer based on income level, past credit quality, other debt and other factors that may affect the borrower s ability to repay. As a result of past deterioration of the economic environment in Japan, we increased the number of consumer credit information associations to which we belong in an attempt to improve our access to consumer credit information to better determine trends in customer credit related to card loans.

For customers that have previously been granted credit we also carry out intermediate credit evaluations based upon an analysis of customer trends which enable us to further monitor the state of a customer s loan contracts. We have a specialist section that concentrates on, and attempts to collect in full, loans we expect may soon become delinquent, such as loans for which monthly payments are regularly late. In order to reduce the risk of default, the section provides counseling to customers with a tendency to make late payments soon after such tendency is recognized.

In our asset management section, we utilize an automatic monitoring system to begin the collection process immediately after a default occurs.

Life Insurance

ORIX Life Insurance has received a license from the Prime Minister and is regulated by the Financial Services Agency. This company complies with the laws and regulations applied by the authorities and manages its risk as described below.

We believe a life insurance company must have a stable source of earnings to pay future insurance claims. Our life insurance business invests in assets which target income levels sufficient to cover such claims. The assets in which we invest, however, are exposed to a number of risks, including credit risk, market risk and liquidity risk.

Credit Risk Relating to Life Insurance

We assign our own ratings to bonds using ratings assigned by outside rating agencies as a reference. Based on our own ratings, we establish limits on life insurance-related investments in securities of a single issuer in an effort to diversify credit risk. Furthermore, our life insurance business invests in bonds that have high credit ratings. Decisions on whether to continue to hold issues that have effectively exceeded our purchase limits due to downgrades in credit ratings are carried out on a case-by-case basis with due consideration given to the risks and returns involved.

A large majority of the companies to which we make loans in our life insurance operations are not rated by a rating agency. We do not manage the credit evaluation of such companies in the same manner as we do with issuers of bonds. Instead, we carry out our credit evaluations by analyzing quantitative data that is available in their financial statements and the collateral.

In addition, we monitor the financial position of companies to which we have made loans by reexamining their financial positions and the value of their collateral on a semi-annual basis.

Market Risk Related to Life Insurance

In order to address market risks, we generally match the duration of our life insurance-related assets with our life insurance-related liabilities as part of our ALM system. However, as present interest rates are historically very low, we have intentionally maintained a shorter duration for assets than liabilities in order to hedge against a rise in interest rates. Also, we calculate value-at-risk using the past profitability for each different asset category that we hold and attempt to manage the degree of permissible risk while monitoring this calculation.

The majority of our loans in our life insurance operations are floating rate loans based on the long-term prime rate and we therefore believe that we are exposed to relatively little interest rate risk.

Liquidity Risk Related to Life Insurance

We control the maturity of new life insurance-related assets we acquire in a manner that avoids the creation of a cash shortage at a specific point in time, based upon the degree of matching, from an ALM perspective, between future cash flows from insurance policies and future cash flows from life insurance-related assets.

United States

Our single largest concentration overseas in terms of asset size is the United States where we are involved in several business areas that include direct financing leasing, securities investment, real estate development and CMBS transactions. Our subsidiaries in the United States employ their own unique risk management systems in addition to our comprehensive risk management system.

Starting in fiscal 2004, we reorganized the organizational structures, policies and risk management systems of our principal subsidiaries in the United States (which used to manage their operations independently of each other) by combining the functions of their respective sales and marketing and administration divisions.

The organizational structure of the risk management function at each of our principal subsidiaries in the United States includes dedicated credit evaluation staff in the sales and marketing departments and independent

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risk management staff who manage portfolio and credit risks. Identical approval limits have been set for all of our subsidiaries in the United States in order to, among other things, increase the awareness of risk among the different units and to further increase the speed of the decision-making process. Depending on the amount, credit approval limits for new transactions require the joint approval of senior management of our subsidiaries in the United States, which include senior ORIX management stationed there, while transactions over a certain amount require approval of the ICC in Tokyo. In addition, we have a system of checks in place in which the details of overseas monitoring of individual transactions and portfolios are reported to our Risk Management Headquarters in Tokyo.

For new transactions, we employ internal credit risk ratings as a method to continuously monitor individual transactions at the time of, and after, origination. For regular credit evaluation for such transactions as leases, loans and mortgages, we use nine levels of credit risk ratings, which are based on those employed by the United States Office of the Comptroller of the Currency. These credit risk ratings are used as the standard for determining the trend of problem assets, provisioning and recording write-downs. For real estate development projects, we apply the above credit ratings as part of our regular monitoring of our profit estimates from the projects. At the time of a new investment in securities, we use a scoring system that is a matrix of the financial conditions of the issuer, its position in an industry, capital structure, management quality and terms and conditions.

After a transaction has been completed, each unit is responsible for reporting changes in individual risk ratings so that problem assets and trends can be quickly identified. Specific reserves and provisioning requirements are determined at quarterly risk management review meetings that are attended by the credit heads of each sales and marketing division or subsidiary together with representatives from OUC executive management, OUC risk management, accounting, internal audit and our Risk Management Headquarters in Tokyo. Results of these review meetings are reported to our CEO and the executive officer responsible for overseas activities.

GOVERNMENTAL AND POLITICAL POLICIES AND FACTORS

In our opinion, no current governmental economic, fiscal, monetary or political policies or factors have materially affected, or threaten to materially affect, directly or indirectly, our operations or the investments in our Shares by our US shareholders.

Item 6. Directors, Senior Management and Employees

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

BOARD OF DIRECTORS

ORIX s board of directors has the ultimate responsibility as the decision-making body over our affairs. The articles of incorporation of ORIX provide for no less than three directors. Directors are elected at general meetings of shareholders. The term of office, as stipulated under the Japanese Commercial Code and the Law Regarding Exceptional Rules of the Commercial Code, or the Commercial Code of Japan, for companies that adopt a Company with Committees board model, of any director expires within one year after his or her assumption of office, on the close of the annual general meeting of shareholders held to release the last settlement of accounts.

At the 40th annual general meeting of shareholders held on June 25, 2003, shareholders of ORIX passed a resolution to amend ORIX s articles of incorporation and allow the Company to adopt a Company with Committees board model, which became possible as a result of amendment to the Law for Special Provisions for the Commercial Code of Japan effective on April 1, 2003. The Company with Committees board model replaced the former system that required corporate auditors to monitor the board on behalf of shareholders.

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This Company with Committees system, as stipulated under the Commercial Code of Japan, requires the establishment of three committees, the Audit, Nominating and Compensation Committees, made up of members of the board of directors. Each committee is required to consist of three or more directors, a majority of whom must be outside directors. Directors may serve on more than one committee. The term of office of committee members is not stipulated under the Commercial Code of Japan. However, as a committee member must be a director of the company, the term expires within one year after his or her assumption of office, on the close of the annual general meeting of shareholders held to release the last settlement of accounts.

An outside director is defined as a director who does not have a role in executing the company s business, who has not assumed the position of director, executive officer (*shikkou-yaku*), manager or any other employee with the role of executing the business of the company or its subsidiaries in the past, and who does not assume the position of director or executive officer of such subsidiaries or manager or any other employee of such company or subsidiaries with the role of executing the business thereof. Although not required by the Commercial Code of Japan, each committee of ORIX is currently chaired by an outside director.

Under the Company with Committees system, a company will also have executive officers, who are appointed and dismissed by the board of directors and who make the material management decisions for the company. The board of directors may delegate substantial management authority to executive officers under this system. For example, the board may delegate to executive officers the authority to approve issuances of shares of capital stock and bonds. In addition, the Commercial Code of Japan permits an individual to simultaneously be a director and an executive officer of the company.

With the adoption of the Company with Committees system, the Audit Committee is responsible for monitoring the board of directors on behalf of shareholders, a role that was traditionally carried out by corporate auditors under the corporate auditor system. Under the Company with Committees system, the directors of the Company that compose the Audit Committee are not permitted to be executive officers, managers or any other employees of the Company or its subsidiaries nor directors of any of such subsidiaries with the role of executing the business thereof. Under the Company with Committees system, the Audit Committee generally has powers and duties that are similar to those given to corporate auditors. This includes responsibility for monitoring the performance of the directors and executive officers in the performance of their duties, as well as the right to propose the appointment or dismissal, or to refuse reappointment, of the Company s certified public accountants at the annual general meeting of shareholders. Accordingly, any proposal for appointment or dismissal of a certified public accountant needs to be submitted to a general meeting of shareholders for approval. In furtherance of its responsibilities, the Audit Committee has the power to request from any director, executive officer, manager or other employee, at any time, a report of their business operations and to inspect for itself the details of the Company s business operations and financial condition.

Four members that include Yoshinori Yokoyama, Akira Miyahara, Hirotaka Takeuchi and Masaaki Yamamoto comprise the Audit Committee.

The Nominating Committee is authorized to select director candidates to be nominated at the annual general meeting of shareholders as stipulated by the Commercial Code of Japan. Directors are elected from a list of candidates at the annual general meeting of shareholders. In addition, the Nominating Committee deliberates on the appointment or dismissal of executive officers and group executives, although this is not required under the Commercial Code of Japan.

Four members that include Akira Miyahara, Tatsuya Tamura, Paul Sheard and Yoshihiko Miyauchi comprise the Nominating Committee.

The Compensation Committee has the authority to set the compensation policy for directors and executive officers in accordance with the Commercial Code of Japan and set the compensation level for each individual director and executive officer. The compensation policy and the total amount of compensation is disclosed in accordance with the Commercial Code of Japan.

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ORIX s business objective is to increase shareholder value over the long-term. We believe in each director and executive officer responsibly performing his duties and in the importance of cooperation among different business units in order to achieve continued growth. The Compensation Committee at ORIX believes that in order to accomplish such business objectives, directors and executive officers should place emphasis not only on performance during the current fiscal year, but also on mid- to long-term results. Accordingly, under the basic policy that compensation should provide effective incentives, we take such factors into account when making decisions regarding the compensation system and compensation levels for our directors and executive officers.

Compensation Policy for Directors

The compensation policy for directors who are not also executive officers aims for a level and composition of compensation that is effective in maintaining supervisory and oversight functions of business operations, which is the main duty of directors. Specifically, while aiming to maintain competitive compensation standards, our compensation structure consists of a fixed compensation component based on duties performed and a component linked to mid- to long-term stock prices.

Compensation Policy for Executive Officers

The compensation policy for executive officers, including those who are also directors, aims for a level of compensation that is effective in maintaining business operation functions, while incorporating in its composition a component that is linked to current period business performance. Specifically, while aiming to maintain competitive compensation standards, our compensation structure consists of a fixed component based on positions and duties performed, a performance-linked component linked to business performance in the current fiscal year, and a component linked to mid- to long-term stock prices.

Four members that include Tatsuya Tamura, Yoshinori Yokoyama, Paul Sheard and Hirotaka Takeuchi comprise the Compensation Committee.

AUDITORS INDEPENDENCE

ORIX must appoint independent certified public accountants, who have the statutory duty of examining the non-consolidated financial statements prepared in accordance with accounting principles generally accepted in Japan, or Japanese GAAP. The independent certified public accountants must present an auditor s report to the Audit Committee and the executive officers specified by the board of directors. The independent certified public accountants are also responsible for auditing financial statements that are submitted to the Prime Minister of Japan. The board of directors is required to submit the audited consolidated and non-consolidated financial information to the annual general meeting of shareholders, while audited consolidated and non-consolidated financial information is required to be submitted to the Tokyo Stock Exchange, the Osaka Securities Exchange and to the Prime Minister.

Presently, ORIX s independent certified public accountants are KPMG AZSA & Co., the Japan member firm of KPMG International, a Swiss cooperative, or KPMG. The independence of KPMG AZSA & Co. has been considered and confirmed by ORIX s board of directors. The board of directors also confirmed that no management-level individuals are currently seconded to or from KPMG AZSA & Co., and that no management-level individuals presently working for the other have previously worked, as the case may be, for ORIX or KPMG AZSA & Co.

In addition to the non-consolidated financial statements that are prepared under Japanese GAAP, we also prepare consolidated financial statements in accordance with accounting principles generally accepted in the United States, or US GAAP. US GAAP consolidated financial information is used by management for evaluating our performance and forms the basis for presentation of financial information to our shareholders. The consolidated financial statements prepared in accordance with US GAAP that are sent to shareholders and

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included in this annual report filed with the United States Securities and Exchange Commission, or the SEC, have been audited by KPMG AZSA & Co. Since ORIX is listed in the United States, its independent accountant is required to be registered with the PCAOB, and KPMG AZSA & Co., has been so registered.

Until fiscal 2002, ORIX was required to submit non-consolidated and consolidated financial statements prepared in accordance with Japanese GAAP, in the required format, to the Tokyo Stock Exchange, the Osaka Securities Exchange and to the Prime Minister. From fiscal 2003, these authorities currently accept consolidated information prepared in accordance with US GAAP if it conforms to the formatting requirements in Japan and if the company has securities listed on a stock exchange in the United States, as in the case of ORIX. We also have the option to include consolidated financial information in US GAAP in proxy materials and report consolidated information at the annual general meeting of shareholders, an option we chose to exercise at the annual general meeting of shareholders held on June 21, 2005.

In the opinion of management, the provision of non-audit services did not in any way influence the independence of the audits conducted by KPMG AZSA & Co. because management took full responsibility for decisions relating to the activities affected by these services and KPMG AZSA & Co. and its affiliates did not assume any of the management authority and duties.

THE DIRECTORS

The directors of ORIX as of July 1, 2005 are as follows:

Name	Title	Year first appointed	Shareholdings as of June 30, 2005
			(In thousands)
Yoshihiko Miyauchi	Director, Representative Executive Officer, Chairman and Chief Executive Officer	1970	39,375
Yasuhiko Fujiki	Director, Representative Executive Officer, President and Chief Operating Officer	1994	6,940
Shunsuke Takeda	Director, Vice Chairman and Chief Financial Officer	1993	2,400
Hiroaki Nishina	Director, Deputy President	1993	3,221
Kenji Kajiwara(1)	Director, Deputy President	2004	1,719
Yukio Yanase	Director, Deputy President	2005	203
Masaaki Yamamoto	Director	2003	2,951
Tatsuya Tamura	Outside Director; President, Global Management Institute, Inc.	1999	1,500
Akira Miyahara	Outside Director, Special Advisor, Fuji Xerox Co., Ltd. Director (Non-Executive), The Fuji Fire and Marine Insurance Company Limited	1999	1,600
Yoshinori Yokoyama	Outside Director, Auditor, Industrial Revitalization Corporation of Japan, Visiting Professor, Hitotsubashi University Graduate School of International Corporate Strategy	2002	0
Paul Sheard	Outside Director, Managing Director & Chief Economist Asia, Lehman Brothers	2003	0
Hirotaka Takeuchi	Outside Director, Dean, Hitotsubashi University, Graduate School of International Corporate Strategy Director (Non-Executive), Trend Micro Incorporated	2004	0

(1)

Kenji Kajiwara was first appointed a director of ORIX in 1993. He left ORIX between 2001 and 2004 to accept a director position on the board of Aozora Bank, Ltd., a company in which ORIX has an equity stake. In 2004, he left Aozora Bank and was reelected to the ORIX board of directors.

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Except for Tatsuya Tamura, Akira Miyahara, Yoshinori Yokoyama, Paul Sheard, and Hirotaka Takeuchi, all of the directors are engaged in our business on a full-time basis.

Yoshihiko Miyauchi

Director

Representative Executive Officer

Chairman and Chief Executive Officer

Yoshihiko Miyauchi began his career at Nichimen & Co., Ltd. (currently Sojitz Corporation) in 1960 and worked there four years before entering Orient Leasing Co., Ltd. (currently ORIX Corporation) as one of the founding 13 members in 1964. Miyauchi became a Director in 1970 and was appointed President and CEO in 1980, a position he held until he assumed his present role as Chairman and CEO in April 2000. In his term as CEO, Miyauchi has overseen the development of ORIX into an integrated financial services company that has continued to be on the forefront of innovation.

Miyauchi is a strong proponent of deregulation and serves as the President of the Council for Promoting Regulatory Reform (an organization that reports directly to the Cabinet) and is a Vice Chairman of the Board of Councilors for the *Nippon-Keidanren* (Japan Business Federation). He also has directorships on the boards of Fuji Xerox Co. Ltd., Aozora Bank, Ltd., SHOWA SHELL SEKIYU K.K, Sony Corporation, DAIKYO INCORPORATED and Sojitz Holdings Corporation.

Miyauchi was born on September 13, 1935 and earned a BA from Kwansei Gakuin University in 1958 followed by an MBA from the University of Washington in the United States in 1960.

Yasuhiko Fujiki

Director

Representative Executive Officer

President and Chief Operating Officer

Yasuhiko Fujiki joined Nikko Securities Co., Ltd. in 1968, before moving to Mitsubishi Development Co., Ltd. in 1971 then to ORIX in 1976. Following appointments as General Manager of the Real Estate Sales Department, Credit Department and General Affairs Department, Fujiki was appointed Director in Charge of General Affairs in 1994. In 1997, he became Principal and Director in Charge of the Office of the President and Director in Charge of the Personal Financial Services (PFS) Department. In 1999, Fujiki became a Corporate Senior Vice President and was named Chief Branding Officer in the same year.

In his role in the Office of the President, Fujiki was instrumental in the Company s recent M&A activities and strategic plans to position ORIX to continue to be a major player in Japanese and international financial markets. Since being appointed President and COO in April 2000, Fujiki now oversees the execution of the ORIX Group s business activities and is leading the next generation of ORIX leadership into the 21st Century.

Fujiki also serves as Secretary to the Keizaidoyukai (Japan Association of Corporate Executives); Vice-Chairman of the Japan Leasing Association; and a Director of the Association for Real Estate Securitization.

Fujiki was born on November 27, 1945 and graduated from Waseda University s School of Commerce in 1968.

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Shunsuke Takeda

Director

Vice Chairman

Chief Financial Officer

Shunsuke Takeda entered the Nippon Kangyo Bank, Ltd. (currently Mizuho Financial Group) in 1965 before joining ORIX in 1968. After an assignment to the London Liaison Office and several posts in Japan, Takeda was appointed General Manager of the International Treasury Department in 1989, General Manager of the International Department in 1990 and then General Manager of the Treasury Department in 1992 before becoming a Director in 1993.

Takeda was appointed Managing Director in 1997 and Corporate Executive Vice President in 1999. He has been Chief Financial Officer since 1997 and has been instrumental in creating an advanced system for efficient fund procurement of ORIX and its subsidiaries. He assumed the position of Deputy President in April 2000. In addition to his oversight of the Treasury Department and support of ORIX s President, in August 2000 he was appointed to oversee the reorganization of ORIX s Investment Banking Headquarters. Takeda also served as the Officer in charge of the Office of the President from April 2001 until February 2004 and was the Officer in charge of the Corporate Planning Office from February 2004 to February 2005. In February 2005, Takeda was appointed Vice Chairman. Takeda is also director of the Fuji Fire and Marine Insurance Company Limited.

Takeda was born on September 30, 1941 and graduated from The University of Tokyo Faculty of Law in 1965.

Hiroaki Nishina

Director

Deputy President

Real Estate Business Headquarters

President, ORIX Real Estate Corporation

Hiroaki Nishina joined ORIX in 1968. He became a Director and Deputy Head of the Tokyo Sales Headquarters in 1993 and was appointed President of ORIX Auto Leasing Corporation in 1996. In 1998, Nishina became a Corporate Executive Officer and took over responsibility for the Real Estate Business Headquarters before becoming President of ORIX Real Estate Corporation in 1999. He was Corporate Senior Vice President from June 2000 until being promoted to the position of Corporate Executive Vice President in April 2002. In February 2005, Nishina was appointed Deputy President.

Nishina was born on September 18, 1944 and graduated from Kwansei Gakuin University s School of Economics in 1968.

Kenji Kajiwara

Director

Deputy President

Osaka Group Representative

Domestic Sales Headquarters/Osaka Head Office

Kenji Kajiwara joined Nomura Securities, Co., Ltd. in 1968 before entering ORIX in 1971. After being appointed the General Manager of the Office of the President in 1991, he became a Director in 1993 and was also appointed the Officer in charge of the Office of the President. In 1997, he became the Deputy Head of the Kinki (Osaka) Sales Headquarters and General Manager of the Osaka Sales Department IV. Kajiwara also became a Corporate Executive Officer in 1998 and was appointed a Corporate Senior Vice President in 2000. From September 2000, he became a Senior Executive Officer of The Nippon Credit Bank, Ltd. (currently Aozora Bank, Ltd.) and was made a Senior Managing Director in June 2001. In April 2004, Kajiwara was appointed a

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Director of the Aozora Bank, Ltd. and Advisor to ORIX. In May 2004, he returned to ORIX and was promoted to the position of Corporate Executive Vice President, named Head of the Tokyo Sales Headquarters and made the Officer in charge of the Asset Administration Department. In June 2004, Kajiwara was also appointed a Director. In February 2005, he was promoted to Deputy President as well as the Osaka Group Representative and put in charge of the Domestic Sales Headquarters and Osaka Head Office.

Kajiwara was born on September 11, 1945 and graduated from the Osaka City University School Economics in 1968.

Yukio Yanase

Director

Deputy President

Responsible for Overseas Activities

Alternative Investment & Development Headquarters

Office of the President

Yukio Yanase joined the Saitama Bank (now Resona Bank, Limited) in April 1968 and held a number of positions within the bank covering such areas as human resources, international business activities, risk management, corporate planning and corporate communications and investor relations activities, before becoming President of the bank in 2001. In October 2002, he became a Director and Deputy President of Resona Holdings, Inc.

Yanase joined ORIX in November 2003 as an Advisor and became the Corporate Executive Vice President in charge of the Office of the President in February 2004. He was also appointed the Executive Officer responsible for overseas activities in May 2004 in addition to his responsibilities for the Office of the President. In February 2005, Yanase was appointed Deputy President and added the Alternative Investment & Development Headquarters to his duties.

Yanase was born on June 15, 1944 and graduated from Waseda University s School of Law in 1968.

Masaaki Yamamoto

Director

Masaaki Yamamoto joined ORIX in 1972 after working five years at Ube Industries, Ltd. He became General Manager of the Accounting Department in 1996 and was appointed to the position of Standing Corporate Auditor in June 2001. Yamamoto was appointed to the position of Director under a Company with Committees structure in June 2003.

Yamamoto was born on November 24, 1943 and graduated from Kobe University s School of Management in 1967.

Tatsuya Tamura

Outside Director, ORIX Corporation

President, Global Management Institute Inc.

Co-Chairman, Japan Independent Directors Network

Director (Non-Executive), Suruga Bank Ltd.

Director (Non-Executive), SKY Perfect Communications Inc.

Director (Non-Executive), Kanebo COSMETICS INC.

Tatsuya Tamura joined the Bank of Japan in 1961 and occupied a number of posts before becoming Executive Director in 1992. He served as Chairman of A.T. Kearney (Japan) from April 1996 until June 2002, and was Representative Director of A.T. Kearney, K.K. from April 1998 until April 2002. He served as President

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of EDS Japan from January 1997 to March 1999, and the President and CEO of Japan Investor Solutions and Technologies Co., Ltd. from August 1999 to June 2000. He has been a Director (Non-Executive) at Suruga Bank Ltd. since June 2000. Tamura became President of Global Management Institute Inc. in May 2002, a Director (Non-Executive) of SKY Perfect Communications Inc. in June 2003, and a Director (Non-Executive) of Kanebo COSMETICS INC. in May 2004.

Tamura was appointed as a member of ORIX s Advisory Board in 1997 and then as a Director in 1999 and an Outside Director under a Company with Committees structure in June 2003.

Tamura is also a member of *Keizai Doyukai* (Japan Association of Corporate Executives) and Auditor of the Japan Center for Economic Research. He was born on October 11, 1938 and graduated from The University of Tokyo Faculty of Law in 1961.

Akira Miyahara

Outside Director, ORIX Corporation

Special Advisor, Fuji Xerox Co., Ltd.

Director (Non-Executive), The Fuji Fire and Marine Insurance Company Limited

Akira Miyahara joined Fuji Photo Film Co. Ltd. in 1962 and then moved to Fuji Xerox Co., Ltd. in 1971. At Fuji Xerox he occupied a number of posts before becoming a Director in 1984. After promotions to Managing Director in 1987 and Senior Manager Director in 1988, he was appointed Deputy President in 1990 and President and Chief Operating Officer in 1992, and Vice Chairman of the Board in 1998. He served as an Executive Advisor to Fuji Xerox s Board from June 2002 to June 2005 and became a Director (Non-Executive), The Fuji Fire and Marine Insurance Company Limited in June 2005 and a Special Advisor to Fuji Xerox Co., Ltd. in July 2005.

Miyahara was invited to the Advisory Board of ORIX in 1997 and was then appointed as an Independent Director in June 1999. Miyahara has brought with him a wealth of experience to the ORIX Board and provides an important outside perspective on the company s strategy. Miyahara became an Outside Director under a Company with Committees structure in June 2003.

Miyahara was born on June 19, 1939 and graduated from Kwansei Gakuin University s Commercial Science Department in 1962.

Yoshinori Yokoyama

Outside Director, ORIX Corporation

Auditor, Industrial Revitalization Corporation of Japan

Visiting Professor, Hitotsubashi University

Graduate School of International Corporate Strategy

Yoshinori Yokoyama completed his architectural training at the University of Tokyo in 1966 before taking a position at Kunio Maekawa & Associates. He earned a MArch in Urban Design at the Harvard Graduate School of Design in 1972 and joined Davis, Broady & Associates in 1973. He obtained an MBA from the Sloan School of Management at MIT and joined McKinsey in 1975. He served as a Director at McKinsey from 1987 to 2002. Yokoyama also served as a Senior Fellow at the Research Institute of Economy, Trade and Industry, IAI from 2002 to 2004. Yokoyama was appointed as an Auditor to the Industrial Revitalization Corporation of Japan in April 2003 and became a Visiting Professor for Hitotsubashi University s Graduate School of International Corporate Strategy in May 2004.

Yokoyama first became a member of ORIX Corporation s Advisory Board in June 1997 before becoming a Director in June 2002. Yokoyama became an Outside Director under a Company with Committees structure in June 2003.

Yokoyama was born on September 16, 1942 in Hiroshima Prefecture.

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Paul Sheard

Outside Director, ORIX Corporation

Managing Director & Chief Economist Asia,

Lehman Brothers

After obtaining a Ph.D. in Japanese Economy in 1986 and a Master of Economics in 1988 from the Australian National University, Sheard took up a postdoctoral fellowship and later a faculty position at the Australian National University and in July 1993 joined the faculty of Osaka University. In January 1995, he joined Baring Asset Management as the Strategist of the Japan Investment Team and was promoted to the position of Head in September 1997. Sheard joined Lehman Brothers as Managing Director and Chief Economist Asia in September 2000 and was appointed as an Outside Director to ORIX under a Company with Committees structure in June 2003.

Paul Sheard was born on November 25, 1954 in Adelaide, Australia and graduated with a Bachelor of Arts (Honours) from Monash University in 1981, and earned a PhD in Japanese Economy in 1986 and a Master of Economics in 1988 from the Australian National University.

Hirotaka Takeuchi

Outside Director, ORIX Corporation

Dean, Hitotsubashi University

Graduate School of International Corporate Strategy

Director (Non-Executive), Trend Micro Incorporated

Hirotaka Takeuchi joined McCann-Erickson Advertising Co., Ltd. in 1969, before taking a position as Research Assistant at the Graduate School of Business Administration at the University of California, Berkeley in 1972. He became a Lecturer at the Graduate School of Business Administration at Harvard University in 1976 and became an Assistant Professor there before returning to Japan in 1983 as an Assistant Professor at Hitotsubashi University s School of Commerce, where he later became Professor in 1987. He has held his present position as Dean at the Graduate School of International Corporate Strategy since 1998. Takeuchi became a Corporate Auditor of ORIX in June 2000, resigned in June 2003, and was then appointed an Outside Director to ORIX Corporation in June 2004. In March 2005, Takeuchi was appointed a Director (Non-Executive) at Trend Micro Incorporated.

Takeuchi s publications include *Kigyo no Jiko Kakushin* (Self-innovation of Firms), Chuo Koron Publishing Corporation (co-authorship); *Ishitsu no Manejimento* (Management of Heterogeneity), Diamond Publishing Corporation (co-authorship); *Besuto Purakutisu Kakumei* (Best Practice Revolution), Diamond Publishing Corporation; *The Knowledge-Creating Company*, Oxford University Press (co-authorship); *Chishiki Sozo Kigyo*, Toyo Keizai Inc. (co-authorship); *Can Japan Compete*, Basic Books (co-authorship); *Nihon no Kyoso Senryaku* (co-authorship); and *Hitotsubashi on Knowledge Management*, John Wiley (co-authorship).

Takeuchi was born on October 16, 1946 and he graduated from the International Christian University in 1969. He then went on to receive an MBA in 1971 and a Ph.D. in 1977 from the Graduate School of Business Administration at the University of California, Berkeley.

EXECUTIVE OFFICERS

In 1998, ORIX implemented a corporate executive officer system, which was adopted voluntarily to help separate strategic decision-making functions from day-to-day administrative operations. Under this system, the board of directors were mainly responsible for the strategic decision-making function of ORIX s operations while the corporate executive officers were responsible for carrying out the decisions made by the board of directors. Also, a group corporate executive officer system was set up to share information with management of certain subsidiaries.

With the adoption in June 2003 of the new corporate governance Company with Committees board model, executive officers were nominated as stipulated under the Commercial Code of Japan. Before the adoption of the Company with Committees board model, the term *shikkou yakuin* (corporate executive officer) was used by us to refer to those executives responsible for executing decisions by the board of directors, but there was no specific Japanese law covering the responsibilities and duties of corporate executive officers as this system was voluntarily adopted. Pursuant to the Commercial Code of Japan, our executive officers under the new Company with Committees system now bear responsibilities to the Company and to third parties, as the case may be, in a manner similar to the responsibilities borne by directors of companies that still employ a traditional corporate governance system.

The executive officers of ORIX as of June 21, 2005, unless otherwise described, are as follows:

Name	Title	Areas of duties
Yoshihiko Miyauchi	Chairman and Chief Executive Officer	
Yasuhiko Fujiki	President and Chief Operating Officer	
Shunsuke Takeda	Vice Chairman and Chief Financial Officer	
Hiroaki Nishina	Deputy President	Real Estate Business Headquarters; President, ORIX Real Estate Corporation
Kenji Kajiwara	Deputy President	Osaka Group Representative, Domestic Sales Headquarters/Osaka Head Office
Yukio Yanase	Deputy President	Responsible for Overseas Activities, Alternative Investment & Development Headquarters, Office of the President
Hiroshi Nakajima	Corporate Executive Vice President	Risk Management Headquarters, Receivables Administration Office
Koichiro Muta	Corporate Executive Vice President	Investment Banking, Special Investments Group, Finance Department II, Securitized Products Office
Takeshi Sato	Corporate Executive Vice President	Chairman, ORIX USA Corporation
Masahiro Matono	Corporate Senior Vice President	OQL Headquarters, Asset Administration Department
Masaru Hattori	Corporate Senior Vice President	Accounting Department, Corporate Planning Office
Nobuyuki Kobayashi	Corporate Senior Vice President	Human Resources & Corporate Administration Headquarters
Akira Fukushima	Corporate Senior Vice President	IT Business Headquarters, President, ORIX Computer Systems Corporation, President, ORIX Callcenter Corporation
Hiroshi Nakamura	Corporate Senior Vice President	Legal Department, Compliance Department, Internal Audit Department
Shintaro Agata	Corporate Senior Vice President	Treasury Department
Kozo Endo	Executive Officer	Office of the President
Tadao Saika	Executive Officer	District Sales Headquarters
Hideaki Morita	Executive Officer	Kinki (Osaka) Sales Headquarters
Eiji Mitani	Executive Officer	Administration Center, Tokyo Sales Headquarters
Masayuki Okamoto	Executive Officer	Strategic Investment Planning Group, Investment Banking Headquarters

Name	Title	Areas of duties
Tadao Tsuya	Executive Officer	Corporate Planning Office
Makoto Inoue	Executive Officer	Alternative Investment & Development Headquarters
Haruyuki Urata	Executive Officer	Human Resources & Corporate Administration Headquarters
Kazuo Kojima	Executive Officer	Real Estate Finance Headquarters
Yuki Ohshima	Executive Officer	International Headquarters
Teruo Isogai	Group Executive	President, ORIX Auto Corporation
Tamio Umaki	Group Executive	President, ORIX Rentec Corporation
Yutaka Okazoe	Group Executive	Deputy President, ORIX Real Estate Corporation
Tetsuo Matsumoto	Group Executive	Deputy President, ORIX Real Estate Corporation
Izumi Mizumori	Group Executive	President, ORIX Life Insurance Corporation
Yoshiyuki Yoshizumi	Group Executive	Deputy President, ORIX Auto Corporation
Tsutomu Matsuzaki	Group Executive	President, Nittetsu Lease, Co., Ltd.
Yoshiyuki Yamaya	Group Executive	President, ORIX Credit Corporation

EMPLOYEES

As of March 31, 2005, we had 13,734 full-time employees, compared to 12,481 as of March 31, 2004 and 11,833 as of March 31, 2003. We employ 1,619 staff in the Corporate Financial Services segment, 1,661 staff in the Automobile Operations segment, 881 staff in the Rental Operations segment, 913 staff in the Real Estate Finance segment, 1,250 staff in the Real Estate segment, 511 staff in the Life Insurance segment, 2,597 staff in the Other segment, 573 staff in the Americas segment, 1,986 staff in the Asia, Oceania and Europe segment and 1,743 staff as part of our headquarters function as of March 31, 2005. Some of our employees are represented by a union. We consider our labor relations to be excellent.

The mandatory retirement age for our employees is 60, and varies for our subsidiaries and affiliates. ORIX announced in June 1999 an early voluntary retirement program which is available to ORIX employees who are at least 54 years old. Beginning in April 2005, the age was reduced to 50 years old. Employees who take advantage of this program receive their accrued retirement package plus an incentive premium.

ORIX and some of its subsidiaries have established contributory and non-contributory funded pension plans covering substantially all of their employees. Under the plans, employees are entitled to lump sum payments at the time of termination of their employment or to pension payments. The amounts of these payments are determined by points that are accumulated every year based on an individual s annual salary or on the basis of length of service and remuneration at the time of termination. Our funding policy in respect of these plans is to contribute annually the amounts actuarially determined to be required. Assets of the plans are invested primarily in interest-bearing securities and marketable equity securities. In July 2004, ORIX introduced a defined contribution pension program. In November 2004, we received permission from the Japanese Ministry of Health, Labor and Welfare to transfer the substitutional portion benefit obligation from our employer pension fund to the government and these assets were transferred back to the government in March 2005. In addition, until June 2003, directors and corporate auditors of ORIX and some subsidiaries received lump-sum payments upon termination of their services under unfunded termination plans. These payments were discontinued by ORIX after June 2003. Total costs (termination or pension plans for both employees and directors and corporate auditors) charged to income for all benefit plans (including defined benefit plans) were ¥7,094 million, ¥9,564 million and ¥4,961 in fiscal 2003, 2004 and 2005, respectively.

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SHARE OWNERSHIP

As of March 31, 2005, the directors, executive officers and group executives of the Company directly held an aggregate of 95,685 Shares, representing 0.11% of the total Shares then in issue.

COMPENSATION

To ensure greater management transparency, we established the executive nomination and compensation committee in June 1999. Its functions included recommending executive remuneration. With the move to a Company with Committees board model in June 2003, the committee was replaced with a Nominating Committee and a Compensation Committee. For discussion of these committees, see Item 6. Board of Directors.

At the shareholders meeting held on June 25, 2003, with our adoption of the Company with Committees board model, ORIX terminated its program for retirement payments to directors and corporate auditors. In connection with the termination of this system, shareholders approved payments of an aggregate maximum amount of ¥3,250 million to directors and ¥50 million to corporate auditors for the accumulated amounts under these payments. The amount, timing and method of payment was approved for each director and corporate auditor by the Compensation Committee. The payments to individual directors and corporate auditors were based on the length of service and remuneration at the time of termination.

Compensation for directors, executive officers and group executives in fiscal 2005 was ¥1,429 million in the aggregate.

In addition, in June 2005, we introduced a stock compensation program. In the program, some of the cash compensation and stock options given to directors, executive officers and group executives will be reduced. Instead, the individuals will be assigned points based on their rank each year that can be converted into the Shares at a price calculated based on the then-prevailing market price of the Shares upon retirement from the company. The total number of points granted to directors, executive officers and group executives for fiscal 2005 is equivalent to a maximum of 33,000 Shares. We expect the Shares will be granted from existing treasury stock or new Shares will be issued as necessary. In addition, in June 2005 we established guidelines for directors, executive officers and group executives to own shares of the company. Such purchases are to be made with each individual s own funds and are not part of compensation.

There are no service contracts between any of our directors or executive officers and the Company or any of its subsidiaries providing for benefits upon termination of the employment.

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The following table shows the names of directors, executive officers and group executives who received, or in the case of 2005 are expected to receive, stock options, and the number of Shares for which they were, or in the case of 2005 are expected to be, granted options, under the 1998, 1999, 2000, 2001, 2002, 2003, 2004 and 2005 stock option plans (except warrant plans). The specific number of Shares to be granted to each individual under the 2005 stock option plan has not yet been approved. Each unit of the Shares has one vote. We have not issued any preferred shares. Titles for each individual as of June 21, 2005, unless otherwise described, are as follows:

Name	Title	1998-2003 stock option plans	2004 stock option plan	2005 stock option plan (1)
Yoshihiko Miyauchi	Director, Chairman and Chief Executive Officer	133,000	21,000	11,000
Yasuhiko Fujiki	Director, President and Chief Operating Officer	66,000	13,000	7,000
Shunsuke Takeda	Director, Vice Chairman and Chief Financial Officer	56,000	9,000	5,000
Hiroaki Nishina	Director and Deputy President	37,500	7,000	4,500
Kenji Kajiwara	Director and Deputy President	27,500	6,500	4,500
Yukio Yanase	Director and Deputy President		6,000	4,500
Masaaki Yamamoto	Director	9,600	4,500	2,500
Tatsuya Tamura	Outside Director	5,500	1,500	1,000
Akira Miyahara	Outside Director	5,500	1,500	1,000
Yoshinori Yokoyama	Outside Director	3,000	1,500	1,000
Paul Sheard	Outside Director	1,500	1,500	1,000
Hirotaka Takeuchi	Outside Director	1,500	1,500	1,000
Hiroshi Nakajima	Corporate Executive Vice President	34,000	6,500	3,500
Koichiro Muta	Corporate Executive Vice President	16,000	5,500	3,300
Takeshi Sato	Corporate Executive Vice President	39,000	6,000	3,300
Masahiro Matono	Corporate Senior Vice President	34,000	5,500	3,000
Masaru Hattori	Corporate Senior Vice President	31,500	5,500	3,000
Nobuyuki Kobayashi	Corporate Senior Vice President	29,000	5,500	3,000
Akira Fukushima	Corporate Senior Vice President	18,500	5,000	3,000
Hiroshi Nakamura	Corporate Senior Vice President	13,000	4,500	2,800
Shintaro Agata	Corporate Senior Vice President	17,000	4,500	2,800
Kozo Endo	Executive Officer	17,000	4,500	2,500
Tadao Saika	Executive Officer	6,400	4,500	2,500
Hideaki Morita	Executive Officer	6,900	4,500	2,500
Eiji Mitani	Executive Officer	7,600	4,500	2,500
Masayuki Okamoto	Executive Officer	3,500	4,000	2,500
Tadao Tsuya	Executive Officer		1,000	2,300
Makoto Inoue	Executive Officer	3,600	1,800	2,300
Haruyuki Urata	Executive Officer	2,600	1,500	2,300
Kazuo Kojima	Executive Officer	3,900	1,800	2,300
Yuki Ohshima	Executive Officer	3,800	1,500	2,300
Teruo Isogai	Group Executive	36,000	4,500	2,500
Tamio Umaki	Group Executive	22,500	4,500	2,500
Yutaka Okazoe	Group Executive	9,600	4,500	2,500
Tetsuo Matsumoto	Group Executive	13,800	4,500	2,500
Izumi Mizumori	Group Executive	9,000	4,500	2,500
Yoshiyuki Yoshizumi	Group Executive	10,500	4,500	2,500
Tsutomu Matsuzaki	Group Executive	10,500	4,500	2,500
Yoshiyuki Yamaya	Group Executive	4,300	1,800	2,300

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STOCK OPTION AND WARRANT PLANS

ORIX has adopted various employee incentive plans. The purpose of ORIX s stock option and warrant plans is to enhance the awareness of the option holders of the link between management, corporate performance and stock price, and, in this way, improve the business results of ORIX. These plans are administered by the Human Resources Group of ORIX. For further discussion of stock-based compensation, see Note 17 in Item 18. Financial Statements.

Stock Option Plans

Our shareholders approved Stock Option Plans at the annual general meeting of shareholders in the years from 1997 to 2000 inclusive, under which Shares were purchased from the open market and held by ORIX for transfer to Directors and Corporate Executive Officers and some employees of ORIX upon the exercise of their options. Shareholders also approved Warrant Plans for the years 1998 to 2001, a stock subscription rights plan in 2001 and stock acquisition rights plans in 2002, 2003, 2004 and 2005.

Under the 1997 to 1999 Stock Option Plans, the exercise prices of the options were adjusted on April 1, 2000 to reflect the subdivision of each share of common stock into 1.2 Shares, which was implemented on May 19, 2000. Options granted under Stock Option Plans generally expire one year after the termination of the option holder s service with ORIX.

At the annual general meeting of shareholders in June 2005, ORIX s shareholders approved the 2005 Stock Acquisition Rights Plan, under which Stock Acquisition Rights of a maximum of 5,800 each convertible into 100 new Shares, will be granted to directors, executive officers and some employees of ORIX and directors, corporate auditors and certain employees of subsidiaries and affiliates.

	Shares granted	Exercise price per Share	Option expiration date
1998 Stock Option Plan	146,000	¥ 7,784	June 26, 2008
1999 Stock Option Plan	145,000	10,393	June 29, 2009
2000 Stock Option Plan	316,700	16,272	June 29, 2010
2001 Stock Subscription Rights Plan	300,900	12,329	June 28, 2011
2002 Stock Acquisition Rights Plan	453,300	7,452	June 26, 2012
2003 Stock Acquisition Rights Plan	516,000	7,230	June 25, 2013
2004 Stock Acquisition Rights Plan	640,000	12,121	June 23, 2014
2005 Stock Acquisition Rights Plan (1)	580,000		June 21, 2015

(1) The number of Shares authorized to be granted is 580,000. The actual number of Shares granted pursuant to such authority may be less than the number authorized.

Warrant Plans

From 1997 to 2001, the board of directors of ORIX approved warrant plans under which warrants to purchase Shares were granted or sold to corporate auditors and some employees of ORIX, excluding employees who were option holders under the Stock Option Plan of the same year, and to directors, corporate auditors and certain employees of subsidiaries, by repurchasing warrants attached to bonds with warrants issued by ORIX.

Warrants granted under the Warrant Plans generally expire one year after the termination of the warrant holder s service with ORIX.

	Warrants granted	Exercise price per Share	Warrant expiration date
2001 Warrant Plan	124,303	12,329	July 22, 2005

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Item 7. Major Shareholders and Related Party Transactions

MAJOR SHAREHOLDERS

The following table shows our major shareholders as of March 31, 2005 registered on our Register of Shareholders. Each unit of the Shares has one vote and our major shareholders have no different voting rights. We do not issue any preferred shares.

Name	Number of Shares held	Percentage of total Shares in issue
	(thousands)	(%)
Japan Trustee Services Bank, Ltd. (Trust Account)	10,293	11.70
The Master Trust Bank of Japan, Ltd (Trust Account)	7,373	8.38
State Street Bank and Trust Company	5,572	6.33
State Street Bank and Trust Company 505103	4,120	4.68
The Chase Manhattan Bank, N.A. London	2,854	3.24
The Chase Manhattan Bank 385036	1,761	2.00
The Chase Manhattan Bank, N.A. London SL Omnibus Account	1,662	1.89
JPM CBUSA Residents Pension Jasdec Lend 385051	1,402	1.59
Nippon Life Insurance Company	1,385	1.57
Trust & Custody Services Bank, Ltd. (Trust Account B)	1,380	1.57

ORIX is not directly or indirectly owned or controlled by any corporations, natural or legal persons severally or jointly. As of March 31, 2005, the percentage of outstanding Shares held by overseas corporations and individuals was 57.2%. On March 31, 2005, approximately 2,258,320 ADSs were outstanding. This is equivalent to 1,129,160 or approximately 1.3% of the total number of Shares outstanding on that date. On that date, ADSs were held by 3 record holders, including 2 record holders in the United States holding 2,258,080 ADSs.

In July 2005, we received a copy of a filing made by Wellington Management Company, LLP, or Wellington Management, to the Kanto Regional Finance Bureau on July 11, 2005 indicating that Wellington Management held 4,521,914 Shares, representing 5.14% of ORIX s outstanding Shares, as part of Wellington Management s assets under management.

We received a copy of a filing made by Capital Group International, Inc., or CGII, to the Kanto Regional Finance Bureau on April 27, 2005 indicating that CGII held 9,289,510 Shares, representing 10.56% of ORIX s outstanding Shares. In addition, in February 2005, ORIX received from CGII a notice that included a copy of a Schedule 13G filed by CGII and Capital Guardian Trust Company on February 11, 2005 pursuant to Rule 13d-1(b) under the Securities and Exchange Act of 1934, or the Act. The notice indicated that neither CGII nor any of its affiliates owned Shares for its own account and that the Shares were held solely for investment purposes in the ordinary course of business and not with the purpose or effect of changing or influencing control. However, by virtue of Rule 13d-3 under the Act, CGII may be deemed to beneficially own 9,244,690 Shares as of December 31, 2004, representing 10.9% of ORIX s outstanding Shares at that time, of which 5,371,650 Shares, representing 6.4% of ORIX s outstanding Shares, were held by the Capital Guardian Trust Company.

In March 2005, we received a copy of a filing made by the Nomura Group to the Kanto Regional Finance Bureau on March 15, 2005 indicating that the Nomura Group held 4,411,050 Shares, representing 5.21% of ORIX s outstanding Shares, as part of the Nomura Group s assets under management. In June 2005, we received a copy of a report filed on June 15, 2005 indicating that the Nomura Group held 4,252,000 Shares, representing 4.83% of ORIX s outstanding Shares.

In July 2004, we received a copy of a filing made by Mitsui Asset Trust and Banking Company, Limited, or Mitsui Asset Trust, to the Kanto Regional Finance Bureau on July 15, 2004 indicating that Mitsui Asset Trust held 2,306,000 shares of the Company s common stock, representing 2.73% of ORIX s outstanding Shares, as part of Mitsui Asset Trust s assets under management.

RELATED PARTY TRANSACTIONS

As of March 31, 2005, no person was the beneficial owner of more than 10% of any class of the Shares (with the possible exception of CGII for the reasons described above) which might give that person significant influence over us. In addition, we are not directly or indirectly owned or controlled by, or under common control with, any enterprise.

We may enter into transactions with CGII, Nomura Group, Mitsui Asset Trust, Wellington Management or other shareholders or potential large investors in the ordinary course of our business. We may also enter into transactions in the ordinary course of our business with certain key management personnel or with certain companies over which we, or our key management personnel, may have a significant influence. Our business relationships with these companies and individuals cover many of the financial services we provide our clients generally. We believe we conduct our business with these companies and individuals in the normal course and on terms equivalent to those that would exist if they did not have equity holdings in us, if they were not our key management personnel, or if we or our key management personnel did not have significant influence over them, as the case may be. None of these transactions is or was material to us or, to our knowledge, to the other party.

Since the beginning of our preceding three fiscal years, there have been no transactions or outstanding loans, including guarantees of any kind, and there are none currently proposed, that are material to us, or to our knowledge, to the other party, between us and any (i) enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, us; (ii) associates; (iii) individuals owning, directly or indirectly, an interest in the voting power of us that gives them significant influence over us, and close members of any such individual s family; (iv) key management personnel, including directors and senior management of companies and close members of such individuals families; or (v) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (iii) or (iv) or over which such a person is able to exercise significant influence. We note, however, that ORIX has entered into a contract with Global Management Institute Inc. that is headed by President Tatsuya Tamura, who is also an outside director of ORIX. Under the contract, ORIX pays ¥6 million per year to receive information on the Japanese and global economies and industries as well as information needed for examining specific areas. We believe this transaction has been conducted in the normal course and is on terms equivalent to those that would exist if our key management personnel did not have significant influence over Global Management Institute. Although this transaction is not material to us or, to our knowledge, to Global Management Institute, it may in fact be material to Global Management Institute. The present contract for these services will expire in July 2005 and will not be renewed.

There are no outstanding loans (including guarantees of any kind) made by the Company or any of its subsidiaries to or for the benefit of any of the persons listed in clauses (i) through (v) in the foregoing paragraph except for the following. Certain of our affiliates may fall within the meaning of a related party under clauses (i) or (ii) in the foregoing paragraph. The amount of outstanding loans (including guarantees of any kind) made by us to or for the benefit of all of our affiliates, including those which may fall within the meaning of a related party, totaled ¥9,817 million as of March 31, 2005 and did not exceed ¥9,817 million over the entire fiscal year. In April 2005, we also refinanced approximately ¥32 billion of DAIKYO s debt as part of our efforts to strengthen DAIKYO s finances. The loan is a floating rate loan at TIBOR plus 300 basis points and reset every three months. The contract extends until March 2008. The loan is secured by an office building that is DAIKYO s head office and by other assets. As of June 30, 2005, the outstanding balance on this loan was ¥30,104 million. We believe these loans were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectability or present other unfavorable features.

Item 8. Financial Information

All relevant financial statements are attached hereto. See Item 18. Financial Statements.

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LEGAL PROCEEDINGS

See Item 4. Information on the Company Legal Proceedings.

DIVIDEND POLICY AND DIVIDENDS

See Item 10. Additional Information Dividend Policy and Dividends.

SIGNIFICANT CHANGES

None.

Item 9. The Offer and Listing

TOKYO STOCK EXCHANGE

The primary market for the Shares is the Tokyo Stock Exchange. The Shares have been traded on the First Section of the Tokyo Stock Exchange since 1973 and are also listed on the First Section of The Osaka Securities Exchange. The Shares were delisted from the Nagoya Stock Exchange on October 23, 2004.

The Tokyo Stock Exchange is the principal Japanese stock exchange. The most widely followed price index of stocks on the Tokyo Stock Exchange is the Nikkei Stock Average, an index of 225 selected stocks traded on the First Section of the Tokyo Stock Exchange.

The following table shows the reported high and low sales prices of the Shares on the Tokyo Stock Exchange, excluding off-floor transactions. High and low sales price quotations from the Tokyo Stock Exchange have been translated in each case into dollars per ADS at the Federal Reserve Bank of New York s noon buying rate on the relevant date or the noon buying rate on the next business day if the relevant date is not a business day.

TOKYO STOCK EXCHANGE PRICE SHARE

	Price per Share		Translated into dollars per ADS	
	High	Low	High	Low
Year ended March 31, 2001	¥ 16,980	¥ 8,600	$ 81	$ 35
Year ended March 31, 2002	13,330	8,820	56	38
Year ended March 31, 2003	11,490	5,650	46	24
Year ended March 31, 2004	12,550	4,850	59	20
First fiscal quarter	6,940	4,850	29	20
Second fiscal quarter	8,930	6,660	40	28
Third fiscal quarter	10,030	7,590	46	35
Fourth fiscal quarter	12,550	8,790	59	42
Year ended March 31, 2005	14,790	9,950	71	44
First fiscal quarter	12,940	9,950	60	44
Second fiscal quarter	12,580	10,780	58	49
Third fiscal quarter	13,920	11,140	67	52
Fourth fiscal quarter	14,790	12,970	71	62
Year ending March 31, 2006				
First fiscal quarter	16,800	13,330	76	63
Recent six months				
January 2005	14,020	13,330	67	65
February 2005	13,850	12,970	66	62
March 2005	14,790	13,450	71	64
April 2005	14,870	13,330	69	63
May 2005	15,990	14,200	74	68
June 2005	16,800	15,450	76	72

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In May 2000, ORIX implemented the subdivision of each of common stock registered on its register of shareholders as of March 31, 2000 into 1.2 Shares. The per-share prices set forth above have not been adjusted to reflect that subdivision.

NEW YORK STOCK EXCHANGE

The ADSs are listed on the New York Stock Exchange under the symbol IX.

Two ADSs represent one share. On March 31, 2005, approximately 2,258,320 ADSs were outstanding. This is equivalent to 1,129,160 or approximately 1.3% of the total number of Shares outstanding on that date. On that date, ADSs were held by 3 record holders, including 2 record holders in the United States holding 2,258,080 ADSs. The per ADS prices below were not adjusted as a result of the share subdivision mentioned above.

The following table provides the high and low closing sales prices and the average daily trading volume of the ADSs on the New York Stock Exchange based on information provided by Bloomberg L.P.

NYSE PRICE PER ADS

	High	Low	Average daily trading volume (shares)
			(thousands)
Year ended March 31, 2001	$ 78.25	$ 37.30	7,701
Year ended March 31, 2002	54.85	36.55	3,037
Year ended March 31, 2003	45.31	25.05	3,030
Year ended March 31, 2004	57.60	20.70	3,798
First fiscal quarter	29.00	20.70	3,276
Second fiscal quarter	39.60	28.36	3,645
Third fiscal quarter	45.35	35.00	4,031
Fourth fiscal quarter	57.60	41.90	4,245
Year ended March 31, 2005	71.75	44.05	4,702
First fiscal quarter	58.15	44.05	6,068
Second fiscal quarter	57.50	49.88	3,266
Third fiscal quarter	68.60	51.79	2,838
Fourth fiscal quarter	71.75	61.70	6,756
Year ending March 31, 2006			
First fiscal quarter	76.80	64.49	5,378
Recent six months			
January 2005	68.65	64.59	6,710
February 2005	67.16	61.70	8,863
March 2005	71.75	64.27	4,977
April 2005	68.80	64.49	6,438
May 2005	72.70	69.39	3,862

June 2005	76.80	71.85	5,814

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Item 10. Additional Information

MEMORANDUM AND ARTICLES OF INCORPORATION

PURPOSES

The purposes of the Company, as provided in Article 2 of our articles of incorporation, are to engage in the following businesses: (i) lease, purchase and sale (including purchase and sale on an installment basis), maintenance and management of movable property of all types; (ii) lease, purchase and sale, ground preparation, development, maintenance and management of real property; (iii) lending of money, purchase and sale of claims of all types, payment on behalf of third parties, guarantee and assumption of obligations and other financial business; (iv) holding, investment in, management, purchase and sale of securities; (v) holding, management, purchase and sale of mortgage certificates; (vi) business of investment in and sale of commodities, and advisory business in respect of investment in commodities; (vii) securities broker business; (viii) trust agreement agency business; (ix) business of sale of trust beneficiary rights; (x) acting as an agent for collection of money and for calculation work of enterprises; (xi) manufacture, processing, repair and sale of furniture, interior goods, transport machinery and equipment, etc.; (xii) water transport, road transport of cargo and warehousing; (xiii) contracting for construction and civil engineering, and design and supervision thereof; (xiv) planning, developing, contracting for, lease and sale of intangible property rights such as copyrights, industrial property rights, etc.; (xv) information services, telecommunication, advertising and publishing business; (xvi) management of facilities for sports, lodging, medical treatment and social education, etc.; (xvii) management of restaurants and tour business; (xviii) conducting cultural projects, sports, etc.; (ixx) business of dispatching workers to enterprises; (xx) purchase and sale of antiques; (xxi) services relating to the collection, transportation and disposal of ordinary waste products and industrial waste products; (xxii) generation of electric power and supply of electricity; (xxiii) brokerage, agency, investigation and consulting for business relating to any of the preceding items; (xxiv) non-life insurance agency business, insurance agency business under the Automobile Accident Compensation Security Law, and service related to soliciting life insurance; (xxv) investment advisory business relating to real estate, securities and other financial assets; (xxvi) engaging in, banking, trust and credit management and collection business operations, as a result of the acquisition of shares in a company engaged in those activities; and (xxvii) any and all business related to any of the preceding items.

DIRECTORS AND BOARD OF DIRECTORS

There shall be no less than three directors of the Company (Article 20). Directors shall be elected at a general meeting of shareholders. In the case of the above election, shareholders representing not less than one-third of the number of voting rights of all shareholders shall attend such meeting. In the case of election of directors, cumulative voting shall not be used (Article 21). The term of office of a director shall expire upon conclusion of the annual general meeting of shareholders relating to the last fiscal year ending within one year after a director assumes his or her office (Article 22). Resolutions of the board of directors shall be adopted by a majority of the directors present at a meeting attended by a majority of the directors (Article 25). Remuneration of directors shall be determined by resolution of the Compensation Committee (Article 27).

BOARD COMMITTEES

The Company shall establish the Nominating Committee, the Audit Committee and the Compensation Committee (Article 29). Each Committee shall be composed of three or more directors. The majority of members of each Committee shall be outside directors who are not executive officers of the Company. No member of the Audit Committee shall be an executive officer, manager or other employee of the Company or any of its subsidiaries (including consolidated subsidiaries provided in Article 1-2, Paragraph 4 of the Law Regarding Exceptional Rules of Commercial Code) nor shall any member of the Audit Committee be a director involved in the business of a subsidiary (Article 30). Members of each Committee shall be elected at a board of directors meeting (Article 31).

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SHARES

The Company does not issue any preferred stock. Profits allotted to dividends for common shares shall be paid to shareholders or registered pledgees of record on the Register of Shareholders and the Register of Substantial Shareholders as of the closing of accounts for each fiscal year. With respect to the first dividends on Shares issued upon requests for conversion of convertible bonds, such conversions shall be deemed to have been made at the beginning of the fiscal year during which such requests for conversion have been made, and the dividends shall be paid accordingly. Dividends shall bear no interest and if they have not been received within three years from the day of commencement of payments, they shall belong to the Company (Article 40). Unless otherwise provided for by law or ordinance or the Company s articles of incorporation, resolutions of general meetings of shareholders shall be adopted by a majority of the number of voting rights of shareholders present at the meetings (Article 17). Unless otherwise provided for by law or ordinance, each shareholder shall have one vote for each unit.

GENERAL MEETING OF SHAREHOLDERS

The annual general meeting of shareholders shall be held in June of each year and an extraordinary general meeting of shareholders shall be held whenever necessary. Notices for calling of an annual general meeting of shareholders and an extraordinary general meeting of shareholders shall be dispatched at least two weeks prior to the date set for such meetings (Article 14). General meetings of shareholders shall be called by a representative executive officer pursuant to a resolution of the board of directors (Article 15).

Generally, those shareholders of the Company registered as having voting rights on the Register of Shareholders and the Register of Substantial Shareholders as of the end of a given fiscal year are permitted to exercise their rights at the annual general meeting of shareholders concerning that fiscal year and those shareholders of the Company registered as having voting rights on the Register of Shareholders as of a record date properly fixed by the Company are permitted to exercise their rights at the extraordinary general meeting of shareholders (Article 13).

MATERIAL CONTRACTS

We have no material contracts aside from those entered in our ordinary course of business.

FOREIGN EXCHANGE AND OTHER REGULATIONS

FOREIGN EXCHANGE

The Foreign Exchange and Foreign Trade Law of Japan, as amended, and the cabinet orders and ministerial ordinances thereunder, or the Foreign Exchange Regulations, govern certain aspects relating to the issue and sale of Shares by us and the acquisition and holding of Shares by exchange non-residents and by foreign investors (as defined below). The Foreign Exchange Regulations as currently in effect do not affect transactions between exchange non-residents to purchase or sell Shares outside Japan for non-Japanese currencies.

Exchange non-residents are defined as individuals who are not resident in Japan and corporations whose principal offices are located outside Japan. Generally, branch and other offices located within Japan of non-resident corporations are regarded as exchange residents of Japan and branch and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents of Japan. Foreign investors are defined to be (i) individuals not resident in Japan, (ii) corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan, and (iii) corporations not less than 50% of the total voting rights of which are held, directly or indirectly, by (i) and/or (ii) or a majority of the officers (or officers having the power of representation) of which are non-resident individuals.

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Under the Foreign Exchange Regulations, the sale of Shares by us is, in principle, not subject to a prior notification requirement, but subject to a post reporting requirement of the Minister of Finance. Under the Foreign Exchange Regulations as currently in effect, payments of dividends in respect of Shares and any additional amounts payable pursuant to the terms thereof may in general be paid when made without any restrictions under the Foreign Exchange Regulations.

In general, the acquisition of shares of stock of a Japanese company listed on any Japanese stock exchange or traded in any over-the-counter market in Japan by an exchange non-resident of Japan from an exchange resident of Japan may be made without any restriction, except as mentioned below. However, a report by the relevant exchange resident of Japan to the Minister of Finance must be filed following the transfer of shares to an exchange non-resident of Japan, unless the consideration for such transfer is ¥100 million or less or such transfer is made through a bank, securities company or financial future trader licensed under the relevant Japanese laws.

If a foreign investor acquires shares of a Japanese company listed on a Japanese stock exchange or traded on an over-the-counter market in Japan and as a result of such acquisition (regardless of the person from or through whom it acquires the shares), aggregated with existing holdings (if any), the foreign investor directly or indirectly holds 10% or more of the issued shares of the relevant company, the foreign investor is, in general, required to report such acquisition to the Minister of Finance and any other competent Ministers within 15 days from and including the date of such acquisition. In certain exceptional cases, a prior notification is required in respect of such an acquisition.

The acquisition of Shares by exchange non-residents by way of stock split is not subject to any of the foregoing notification requirements.

Under the Foreign Exchange Regulations, dividends paid on, and the proceeds of sales in Japan of, Shares held by exchange non-residents may in general be converted into any foreign currency and repatriated abroad.

OTHER REGULATIONS

The Securities and Exchange Law requires any person who has become, beneficially and solely or jointly, a holder of more than 5% of the total issued voting shares of capital stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter markets in Japan, to file with the Minister of Finance within five business days a report concerning such shareholdings. A similar report must also be made in respect of any subsequent change of 1% or more in any such holding or any change in material matters set out in reports previously filed, with certain exceptions. For this purpose, shares issuable to such person upon his exchange of exchangeable securities or exercise of Stock Acquisition Rights are taken into account in determining both the size of his holding and the issuer s total issued share capital. Any reports so filed will be made available for public inspection.

DIVIDEND POLICY AND DIVIDENDS

ORIX has paid dividends on the Shares on an annual basis in each year since 1967. With the adoption of a Company with Committees board model in June 2003, since the beginning of fiscal 2004 the board of directors has been responsible for setting the annual dividends. The board of directors approves annual dividends at the board of directors meeting customarily held in May of each year. Immediately following such approval, dividends are paid to holders of record as of the preceding March 31.

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The following table shows the amount of cash dividends paid by ORIX in each of the fiscal years indicated, which amounts are translated into dollars per ADS at the noon buying rate on each of the dates of the annual general meetings of shareholders or from the year ended March 31, 2004 the date of the commencement of dividend payment.

Year ending	Cash Dividends per Share	Translated into dollar per ADS
March 31, 2001	¥ 15.00	$ 0.06
March 31, 2002	15.00	0.06
March 31, 2003	15.00	0.06
March 31, 2004	25.00	0.11
March 31, 2005	25.00	0.12

In consideration of the long downward trend in the dividend payout ratio and discussions in Japan and overseas concerning the taxation of dividends, shareholders approved a resolution on June 25, 2003 at the annual general meeting of shareholders to raise our dividend to ¥25.00 from the level of ¥15.00, which had been maintained for 13 years since the fiscal year ended March 31, 1990. The board of directors agreed to pay a dividend of ¥40.00 at a meeting held on May 20, 2005. This dividend was paid to shareholders of record as of March 31, 2005.

We believe we should use retained earnings mainly to invest in new growth opportunities as we strive to achieve returns for shareholders by increasing our corporate value over the long run. This basic dividend policy has not changed even though we have increased our dividend for shareholders of record as of March 31, 2005.

We currently intend to continue to pay annual cash dividends on the Shares. In the future, however, we may decide not to pay dividends for any of the following reasons:

- in response to a decline in our earnings or financial condition;
- to permit us to increase our assets;
- to maintain our debt-to-equity ratios at a desired level; or
- if any of our lenders with the right to review our dividend plan and approve our payment of dividends objects to a planned dividend.

Pursuant to the amendment to the Special Taxation Measures Law, dividends paid to U.S. holders of Shares or ADSs are generally subject to a Japanese withholding tax at the rate of 7% for the period from January 1, 2004 to March 31, 2008.

TAXATION

JAPANESE TAXATION

The following is a summary of the principal Japanese tax consequences for owners of the Shares or ADSs who are non-resident individuals of Japan or non-Japanese corporations without a permanent establishment in Japan to which the relevant income is attributable (non-resident Holders). The statements regarding Japanese tax laws set forth below are based on the laws in force and as interpreted by the Japanese taxation authorities as of the date hereof and are subject to changes in the applicable Japanese laws or conventions for the avoidance of double taxation occurring after that date. This summary is not exhaustive of all possible tax considerations that may apply to a particular investor and potential investors are advised to satisfy themselves as to:

the overall tax consequences of the acquisition, ownership and disposition of Shares or ADSs, including specifically the tax consequences under Japanese law;

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- the laws of the jurisdiction of which they are resident; and

- any tax treaty between Japan and their country of residence, by consulting their own tax advisers.

Shares

Generally, a non-resident Holder is subject to Japanese withholding tax on dividends on Shares or ADSs paid by us. Stock splits are not subject to Japanese income or corporation tax.

Pursuant to the Special Taxation Measures Law, the Japanese withholding tax rate applicable to dividends on Shares or ADSs paid to non-resident Holders by us is 7% for dividends due and payable on or before March 31, 2008. Japan has entered into income tax treaties, conventions and agreements where this withholding tax rate is, in some cases, reduced to a lower percentage for portfolio investors. Non-resident Holders in the countries who are entitled to this reduced Japanese withholding tax rate are required to submit an Application Form for the Income Tax Convention regarding Relief from Japanese Income Tax on Dividends in advance through us to the relevant Japanese tax authority before the payment of dividends. A standing proxy for a non-resident Holder may provide such application service. Non-resident Holders who do not submit an application in advance will be entitled to claim the refund from the relevant Japanese tax authority of those withholding taxes withheld in excess of the rate of an applicable tax treaty.

The Convention between the United States of America and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, or the Tax Convention, provides for a maximum rate of Japanese withholding tax which may be imposed on dividends paid to a United States resident not having a permanent establishment in Japan. Under the Tax Convention, the maximum withholding rate is generally limited to 10% of the relevant dividends.

Gains derived from the sale outside Japan of Shares or ADSs, or from the sale of Shares or ADSs within Japan by a non-resident Holder, are, in general, not subject to Japanese income or corporation taxes.

Japanese inheritance and gift taxes, at progressive rates, may be payable by an individual who has acquired Shares or ADSs as legatee, heir or donee.

UNITED STATES TAXATION

The following discussion describes the material United States federal income tax consequences of ownership and disposition of Shares or ADSs held as capital assets by United States Holders (as defined below).

This discussion does not describe all of the tax consequences that may be relevant to a holder in light of their particular circumstances or to holders subject to special rules, such as:

certain financial institutions;

insurance companies;

dealers and traders in securities or foreign currencies;

persons holding Shares or ADSs as part of a hedge, straddle, conversion transaction or other integrated transaction;

persons whose functional currency for U.S. federal income tax purposes is not the dollar;

partnerships or other entities classified as partnerships for U.S. federal income tax purposes;

persons subject to the alternative minimum tax;

tax-exempt organizations;

persons that own or are deemed to own 10% or more of the voting stock of the Company;

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persons carrying on a trade or business in Japan through a permanent establishment; or

person who acquired Shares or ADSs pursuant to the exercise of any employee stock option or otherwise as compensation.

This summary is based on the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, changes to any of which subsequent to the date of this annual report may affect the tax consequences described herein.

As used herein, the term United States Holder means a beneficial owner of Shares or ADSs that is for United States federal income tax purposes:

a citizen or resident of the United States;

a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof; or

an estate or trust the income of which is subject to United States federal income taxation regardless of our source.

We believe that we will be considered a passive foreign investment company, or a PFIC, for United States federal income tax purposes in the year to which this annual report relates and for the foreseeable future by reason of the composition of our assets and the nature of our income.

Persons considering the purchase of Shares or ADSs should consult their tax advisors with regard to the PFIC rules described below as well as the application of other United States federal income tax laws relevant to their particular situations and any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

Shares or ADSs

In general, a United States Holder of ADSs will be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if the United States Holder exchanges ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits for United States Holders of ADSs. Accordingly, the analysis of the creditability of Japanese taxes, described below, could be affected by actions taken by parties to whom the ADSs are pre-released.

Taxation of Distributions

Subject to the passive foreign investment company rules described below, distributions paid on Shares or ADSs, other than certain pro rata distributions of common shares, will be treated as a dividend to the extent paid out of our current or accumulated earnings and profits (as determined under United States federal income tax principles). Because we expect to be treated as a passive foreign investment company, as discussed below, dividends paid by us will not be eligible for the reduced 15% dividend tax rate otherwise available to certain non-corporate United States Holders. The amount of a dividend will include any amounts withheld by us or our paying agent in respect of Japanese taxes, as discussed above under Taxation Japanese Taxation Shares. The amount of the dividend will be treated as foreign source dividend income to United States Holders and will not be eligible for the dividends received deduction generally allowed to U.S. corporations under the Code.

Dividends paid in yen will be included in the income of a United States Holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of the United States Holder s (or, in the case of

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ADSs, the depositary s) receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a United States Holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. A United States Holder may have foreign currency gain or loss if such holder does not convert the amount of such dividend into U.S. dollars on the date of its receipt.

Subject to applicable limitations that may vary depending upon the United States Holder s circumstances and subject to the discussion above regarding concerns expressed by the U.S. Treasury, Japanese taxes withheld from dividends on Shares or ADSs not in excess of the rate provided by the Tax Convention will be creditable against the United States Holder s U.S. federal income tax liability. Japanese taxes withheld in excess of the rate allowed by the U.S. treaty will not be eligible for credit against a United States Holder s federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. The rules governing foreign tax credits are complex and, therefore, United States Holders should consult their own tax advisors regarding the availability of foreign tax credits in their particular circumstances. Instead of claiming a credit, United States Holders may, upon election, deduct such otherwise creditable Japanese taxes in computing taxable income, subject to generally applicable limitations under U.S. law.

Passive Foreign Investment Company Rules

If, as expected, we are treated as a PFIC for any year during a United States Holder s holding period of the Shares or ADSs, and the United States Holder has not made the mark-to-market election for the Shares or ADSs, as described below, the holder will be subject to special rules generally intended to eliminate any benefits from the deferral of U.S. federal income tax that a holder could derive from investing in a foreign corporation that does not distribute all of its earnings on a current basis. Upon a disposition of Shares or ADSs, including, under proposed Treasury regulations, a disposition pursuant to an otherwise tax-free reorganization, gain recognized by a United States Holder would be allocated ratably over its holding period for the Shares or ADSs. The amounts allocated to the taxable year of the sale or other exchange and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations for such year, as appropriate, and an interest charge would be imposed on the tax liability allocated to such taxable year. Further, any distribution in respect of Shares or ADSs in excess of 125 percent of the average of the annual distributions on Shares received during the preceding three years or the United States Holder s holding period, whichever is shorter, would be subject to taxation as described above with respect to the sale or other disposition of Shares.

If the Shares or ADSs are considered regularly traded on a qualified exchange, a United States Holder of Shares or ADSs would be eligible to make a mark-to-market election. A qualified exchange includes the NYSE and a foreign exchange that is regulated by a governmental authority in which the exchange is located and with respect to which certain other requirements are met. The Internal Revenue Service, or IRS, has not yet identified specific foreign exchanges that are qualified for this purpose.

If a United States Holder is eligible and makes the mark-to-market election, the United States Holder will include each year, as ordinary income, the excess, if any, of the fair market value of the Shares or ADSs at the end of the taxable year over their adjusted basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of the Shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). If a United States Holder validly makes the election, the holder s basis in the Shares or ADSs will be adjusted to reflect any such income or loss amounts. Any gain recognized on the sale or other disposition of Shares or ADSs will be treated as ordinary income.

We do not intend to comply with the requirements necessary for a United States Holder to make a different election (the qualified electing fund election), which is sometimes available to shareholders of a PFIC.

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Special rules apply to determine the foreign tax credit with respect to withholding taxes imposed on distributions on shares in a PFIC.

Because we expect to be a PFIC, distributions paid by us will not be eligible for taxation at lower rates (generally 15%) than other types of ordinary income for certain non-corporate United States Holders.

If a United States Holder owns Shares during any year in which we are a PFIC, the holder must file IRS Form 8621 with the IRS.

We urge United States Holders to consult their tax advisers concerning our status as a PFIC and the tax considerations relevant to an investment in a PFIC, including the availability and consequences of making the mark-to-market election discussed above.

Backup Withholding and Information Reporting

Information returns may be filed with the IRS in connection with payments of dividends on the Shares or ADSs and on the proceeds from a sale or other disposition of Shares or ADSs. A United States Holder, other than exempt recipients such as all corporations, will be subject to United States backup withholding tax on these payments if the United States Holder fails to provide our taxpayer identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding.

The amount of any backup withholding from a payment to a United States Holder will be allowed as a credit against the such holder s United States federal income tax liability and may entitle such holder to a refund, provided that the required information is furnished to the IRS.

DOCUMENTS ON DISPLAY

We are subject to the reporting requirements of the Act. In accordance with these requirements, we file annual reports on Form 20-F and furnish periodic reports on Form 6-K with the Securities and Exchange Commission.

These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Commission s Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a website at *http://www.sec.gov* that contains reports and proxy information regarding issuers that file electronically with the Commission. In addition, you can inspect reports and other information concerning us at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005 and at our registered office.

We are currently exempt from the rules under the Act that prescribe the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Act. We are not required under the Act to publish financial statements as frequently or as promptly as are US companies subject to the Act. We will, however, continue to furnish our shareholders with annual reports containing audited financial statements and will issue interim press releases containing unaudited results of operations as well as such other reports as may from time to time be authorized by our board of directors or as may be otherwise required.

Our American Depositary Shares, or ADSs, each of which represents one-half of one Share, are listed on the New York Stock Exchange under the trading symbol IX. You can inspect reports and other information concerning us at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

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Item 11. Quantitative and Qualitative Disclosures about Market Risk

DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

We manage interest rate risks as part of our asset-liability management systems, or ALM. We use derivatives to hedge against the adverse impact of interest rate fluctuations. The fair value of our hedged assets and liabilities may rise or fall as a result of interest rate fluctuations, but by using derivatives these fluctuations in value can be reduced or offset. The derivatives we use to manage interest rate risks include interest rate swaps, caps and futures. To hedge exchange rate risks associated with transactions conducted in foreign currencies or investments overseas, we borrow in the appropriate currency in order that assets and liabilities are in the same currency and we also use derivatives including currency swaps and forward contracts. In addition, certain subsidiaries use derivatives that include mainly currency and interest futures in trading activities.

We are exposed to counterparty risk when using derivatives in the event that a counterparty does not fulfill its obligations in the derivative transaction. We attempt to manage this risk by making periodic and when necessary specific checks regarding the amount of notional principal, fair value, the type of transaction and other factors for each counterparty.

To manage derivative transactions, we have established internal controls that include group-wide market risk management regulations that are approved by the ICC. ORIX and each of its subsidiaries that engages in derivatives transactions has established market risk management parameters based on these regulations. Each company that uses derivatives prepares quarterly reports on its derivative transactions. These reports are then presented to ORIX s Treasury Department and Internal Audit Department. The Treasury Department uses these reports to manage all our derivatives transactions, while the Internal Audit Department inspects derivatives-related accounts and performs checks to ensure that internal rules are observed.

MARKET RISKS

Our primary market risk exposures are to interest rate fluctuations, foreign exchange rate movements and changes in market prices for equity securities. We seek to manage market risk exposures as described under Item 5. Operating and Financial Review and Prospects Risk Management.

Our interest income is exposed to the risk of decreases in market interest rates. Decreases in market interest rates reduce interest income mainly from:

- floating rate installment loans;
- interest rate swaps in which we receive a floating rate of interest; and
- investment securities yielding a floating rate of return.

Our most significant exposure of this kind is to installment loans bearing a floating rate of interest. Most of our floating-rate installment loans and short-term investments are denominated in yen and are therefore exposed to the risk of changes in market rates of interest for financial obligations denominated in yen.

Our interest expense is exposed to the risk of increases in market interest rates. Increases in market interest rates increase interest expense mainly from:

- floating rate long-term debt;
- short-term debt;
- deposits; and
- interest rate swaps in which we pay a floating rate of interest.

Our exposure to floating rate long-term debt is significant. We also have a significant amount of short-term debt. We customarily finance a significant portion of our operations through the issuance of commercial paper and short-term borrowings.

Most of our floating rate long-term debt and short-term debt is denominated in yen and is therefore exposed to the risk of changes in market rates of interest for financial obligations denominated in yen. In principle, our floating rate assets are funded by floating rate debt such as floating rate borrowings.

We have foreign-currency denominated assets and liabilities, and engage in foreign-currency denominated transactions. Although we seek to match the currencies in which our assets and liabilities are denominated, in principal, in certain situations the profits and shareholders equity denominated in foreign currencies are not matched and we are exposed to foreign exchange rate risks if these foreign-currency denominated investments are not hedged. These risks include:

- changes in the yen equivalent amounts of income or expenses from transactions denominated in foreign currencies; and
- revaluation of assets and liabilities denominated in foreign currencies or reflected in the financial statements of subsidiaries whose functional currencies are other than yen.

We have a portfolio of equity securities, principally Japanese listed common stocks. Our shareholders equity and net income are exposed to the risk of changes in market prices for these securities.

In addition to the risks described above, we are exposed to market risks in relation to our direct financing leases and operating leases. Interest rate sensitivity and exchange rate sensitivity data for these leases are not required to be presented in the tables below. Substantially all of our direct financing leases and operating leases do not provide for payments that fluctuate based on changes in market rates of interest or changes in rates of currency exchange. However, changes in market rates of interest will affect the fair values of these payments in the future.

We are also exposed to market risks in relation to insurance policies issued by ORIX Life Insurance. Interest rate sensitivity and exchange rate sensitivity data for these policies are not required to be presented in the tables below. All insurance policies issued by ORIX Life Insurance are denominated in yen. Those policies do not provide for payments that fluctuate based on market rates of interest. Our obligations under insurance policies include obligations that are based upon the occurrence of loss events. These also include obligations that are based upon essentially financial criteria, such as insurance products that are designed partially or wholly as investment products. Changes in market rates of interest may affect the fair value of our obligations under other investment-type insurance products and may affect the present value of our expected obligations (based on actuarial determinations) under other insurance products.

The following quantitative information about the market risk of our financial instruments does not include information about financial instruments to which the requirements under FASB Statement No. 107 do not apply, such as investment in direct financing leases, investment in operating leases, and insurance contracts. As a result, the following information does not present all the risk of our financial instruments. We choose to present in tabular form our interest risk exposure, and provide a sensitivity analysis, which presents potential losses in future earnings and potential reductions in fair value in marketable securities resulting from hypothetical changes in exchange rates and equity market prices to show our foreign currency exchange rate and equity market prices exposure. We omitted the disclosure for trading purpose financial instruments because the amount is immaterial.

The table of interest rate sensitivity for non-trading financial instruments summarizes installment loans, interest-bearing bonds and long-and short-term debt. These instruments are further classified as fixed rate and floating rate. For such items, the principal collection and repayment schedules and the weighted average interest rates for collected and repaid portions are disclosed. For interest swaps of derivative financial instruments, the

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estimated notional principal amounts for each contractual period and the weighted average interest swap rates are disclosed. The average interest rates of financial instruments as of the end of fiscal 2005 are: 4.2% for installment loans, 2.6% for interest-bearing bonds, 1.2% for long- and short-term debt and 0.5% for deposits. The average payment rate of interest rate swaps is 2.6% and the average receipt rate is 1.6%. The average interest rates of financial instruments as of the end of fiscal 2004 are: 4.5% for installment loans, 3.5% for interest-bearing bonds, 1.2% for long- and short-term debt and 0.5% for deposits. The average payment rate of interest rate swaps is 2.6% and the average receipt rate is 1.2%. There is no material change in the balance and the average interest rate of financial instruments.

The following tables contain quantitative information concerning the interest rate risk of ORIX s financial instruments.

INTEREST RATE SENSITIVITY

NON-TRADING FINANCIAL INSTRUMENTS

	Expected maturity date							
	Year ended March 31,							March 31, 2005 estimated fair
	2006	2007	2008	2009	2010	Thereafter	Total	value
	(In millions of yen)							
Assets:								
Installment loans (fixed rate)	¥ 347,612	¥ 86,063	¥ 94,605	¥ 59,541	¥ 70,338	¥ 228,380	¥ 886,539	¥ 885,278
Average interest rate	4.6%	8.1%	7.2%	9.1%	7.8%	3.9%	5.6%	
Installment loans (floating rate)	¥ 256,248	¥ 207,570	¥ 184,314	¥ 147,578	¥ 172,646	¥ 531,702	¥ 1,500,058	¥ 1,500,058
Average interest rate	3.5%	3.8%	3.8%	4.1%	3.8%	4.3%	3.4%	
Investment in securities (fixed rate)	¥ 40,818	¥ 35,076	¥ 21,751	¥ 27,791	¥ 67,696	¥ 102,311	¥ 295,443	¥ 305,661
Average interest rate	2.0%	2.2%	2.3%	2.4%	2.8%	3.0%	2.6%	
Investment in securities (floating rate)	¥ 4,013	¥ 2,324	¥ 1,118	¥ 76	¥ 1,163	¥ 20,590	¥ 29,284	¥ 30,832
Average interest rate	2.6%	0.6%	0.9%	3.7%	7.5%	1.9%	2.1%	
Liabilities:								
Short-term debt	¥ 947,871	¥	¥	¥	¥	¥	¥ 947,871	¥ 947,871
Average interest rate	1.3%						1.3%	
Deposits	¥ 172,764	¥ 50,518	¥ 48,263	¥ 12,114	¥ 52,929	¥	¥ 336,588	¥ 341,846
Average interest rate	0.3%	0.7%	0.7%	0.6%	0.9%		0.5%	
Long-term debt (fixed rate)	¥ 376,336	¥ 272,905	¥ 230,815	¥ 249,493	¥ 141,237	¥ 219,296	¥ 1,490,082	¥ 1,501,954
Average interest rate	1.3%	1.1%	1.3%	1.0%	1.4%	1.6%	1.3%	
Long-term debt (floating rate)	¥ 351,836	¥ 301,265	¥ 243,151	¥ 140,196	¥ 253,740	¥ 81,593	¥ 1,371,781	¥ 1,371,781
Average interest rate	1.2%	1.0%	0.8%	0.9%	0.7%	1.2%	1.0%	

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NON-TRADING DERIVATIVE FINANCIAL INSTRUMENTS

	Expected maturity date							
	Year ended March 31,							March 31, 2005 estimated fair value
	2006	2007	2008	2009	2010	Thereafter	Total	
	(In millions of yen)							
Interest rate swaps:								
Notional amount (floating to fixed)	¥ 132,370	¥ 59,840	¥ 42,479	¥ 42,448	¥ 44,206	¥ 24,013	¥ 345,356	¥ (1,940)
Average pay rate	2.7%	2.3%	2.6%	2.7%	1.8%	5.2%	2.7%	
Average receive rate	1.2%	1.8%	2.1%	1.5%	0.8%	2.6%	1.5%	
Notional amount (fixed to floating)	¥ 10,830	¥ 500				¥ 10,152	¥ 21,482	¥ 224
Average pay rate	0.7%	3.7%				0.9%	0.9%	
Average receive rate	2.9%	3.8%				2.0%	2.5%	

	Notional amount	Weighted average strike rate	March 31, 2005 estimated fair value
	(In millions of yen)		(In millions of yen)
Caps held	44,752	0.6%	7

Although we have a foreign currency transaction policy of basically keeping the same balance of foreign currency-denominated assets and liabilities and we do not hold market risk sensitive instruments bearing significant foreign currency risk for trading purposes, there at times may be a small amount of net exposure to foreign currency exchange risk. For example, we are exposed to exchange rate risk from certain investments denominated in dollars and funded in euros. When the euro appreciates against the dollar, we incur foreign currency translation losses. However, the foreign currency translation losses related to these investments are hedged by operating cash flows denominated in euro over the operating period of the investments.

We identified all positions subject to a change in the value of the foreign currency and calculated the potential loss in future earnings resulting from several hypothetical scenarios of 10% changes in related currencies. The largest loss results from a scenario at the end of fiscal 2004 where the euro appreciates against the dollar. The largest loss results were at the end of fiscal 2005 where the euro appreciates against the dollar. Based on these scenarios, exchange losses in future earnings are ¥1,043 million at the end of fiscal 2004 and ¥996 million at the end of fiscal 2005.

We have marketable equity securities held for purposes other than trading, which are subject to price risk arising from changes in their market prices. A 10% uniform upward and downward movement in stock prices is assumed for calculating the fair value sensitivity of our equity securities. The following table shows the sensitivity of our investments to changes in equity prices as of March 31, 2004 and 2005.

As of March 31, 2004		
-10%	±0%	+10%

	(In millions of yen)	
¥(5,904)	¥0	¥5,904

As of March 31, 2005		
-10%	±0%	+10%
	(In millions of yen)	
¥(5,405)	¥0	¥5,405

Item 12. Description of Securities Other than Equity Securities

Not applicable.

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

As of March 31, 2005, the Company, under the supervision and with the participation of the Company s management, including the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer, performed an evaluation of the effectiveness of the Company s disclosure controls and procedures. The Company s management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature can provide only reasonable assurance regarding management s control objectives. Based on this evaluation, the Company s Chief Executive Officer, Chief Operating Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective at the reasonable assurance level for gathering, analyzing and disclosing the information the Company is required to disclose in the reports it files under the Act, within the time periods specified in the SEC s rules and forms.

There has been no change in the Company s internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 16. Reserved

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Masaaki Yamamoto is an audit committee financial expert , within the meaning of the current rules of the U.S. Securities and Exchange Commission. Masaaki Yamamoto is independent as required by Section 303A.06 of the New York Stock Exchange Listed Company Manual.

Item 16B. Code of Ethics

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. During fiscal 2005, ORIX amended its code of ethics to reflect the renaming of the Compliance Coordination Office to the Compliance Department. Pursuant to the amended Code of Ethics, officers of ORIX covered by ORIX s Code of Ethics are required to promptly bring to the attention of the Company s Executive Officer of the Compliance Department any information concerning any violations of the Code of Ethics.

Item 16C. Principal Accountant Fees and Services

FEES PAID TO PRINCIPAL ACCOUNTANT

AUDIT FEES

In fiscal 2004, our auditors (including Japanese and overseas affiliates of KPMG AZSA & Co. (Formerly Asahi & Co) billed us ¥522 million for direct audit fees. In fiscal 2005, our auditors billed us ¥611 million for direct audit fees.

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AUDIT-RELATED FEES

In fiscal 2004, our auditors billed us ¥62 million for audit-related services, including services related to due diligence. In fiscal 2005, our auditors billed us ¥31 million for audit-related services, including services related to due diligence.

TAX FEES

In fiscal 2004, our auditors billed us ¥62 million for tax-related services, including tax compliance and tax advice. In fiscal 2005, our auditors billed us ¥83 million for tax-related services, including tax compliance and tax advice.

ALL OTHER FEES

In fiscal 2004, our auditors billed us ¥1 million for other products and services which included primarily consulting services. In fiscal 2005, our auditors billed us ¥17 million for other products and services which included primarily consulting services.

AUDIT COMMITTEE S PRE-APPROVAL POLICIES AND PROCEDURES

In terms of audit and audit-related services, every year the independent certified public auditor draws up its annual audit plan and annual budget, which is evaluated by ORIX s Accounting Department. Subsequently, pre-approval is obtained from the Audit Committee.

Regarding non-audit-related services, this is in principle not entrusted to the independent certified public auditor or their group. In the case that ORIX must engage the services of the independent auditor, pre-approval is obtained from the Audit Committee on a case-by-case basis only after the reason has been specified.

Item 16D. Exemptions from the Listing Standards for the Audit Committee

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Fiscal 2005	(a) Total number of Shares (or Units) Purchased (i)	(b) Average Price Paid per Share (or Unit) (ii)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (ii)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs
April 1 to 30	1,149	11,922	0	0
May 6 to 31	457	11,147	0	0
June 2 to 30	1,155	12,145	0	0
July 1 to 28	638	12,225	0	0
August 3 to 27	304	11,488	0	0
September 2 to 29	619	11,619	0	0
October 1 to 28	368	11,478	0	0
November 2 to 30	1,330	12,780	0	0
December 1 to 30	1,411	13,223	0	0
January 4 to 31	1,126	13,692	0	0
February 1 to 25	756	13,456	0	0
March 1 to 30	4,006	14,524	0	0
Total	13,319	13,136	0	0

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(i) One unit of the Shares is comprised of 100 Shares. Each unit of the Shares has one vote. A holder who owns Shares in other than a multiple of 100 will own less than a whole unit (i.e., for the portion constituting fewer than 100 Shares). Under the unit share system, holders of Shares constituting less than a unit have the right to require ORIX to purchase their Shares and the right to require ORIX to sell them additional Shares to create a whole unit of 100 Shares. The total number of Shares purchased in column (a) represents Shares that ORIX purchased at the request of shareholders who held less than one unit of shares.
(ii) No plan or program to purchase Shares was announced in fiscal 2005 nor up until the filing of this annual report.

PART III

Item 17. Financial Statements

ORIX has elected to provide financial statements and related information pursuant to Item 18.

Item 18. Financial Statements

See pages F-1 through F-66.

The following consolidated financial statements of ORIX listed below and the report thereon by its independent registered public accounting firm are filed as part of this Form 20-F:

(a) Consolidated Balance Sheets as of March 31, 2004 and 2005 (page F-4)

(b) Consolidated Statements of Income for the years ended March 31, 2003, 2004 and 2005 (page F-5)

(c) Consolidated Statements of Shareholders Equity for the years ended March 31, 2003, 2004 and 2005 (page F-6)

(d) Consolidated Statements of Cash Flows for the years ended March 31, 2003, 2004 and 2005 (page F-7)

(e) Notes to Consolidated Financial Statements (page F-8 to F-70)

(f) Schedule II. Valuation and Qualifying Accounts and Reserves (page F-71)

Item 19. Exhibits

We have filed the following documents as exhibits to this document.

Exhibit 1.1	Articles of Incorporation of ORIX Corporation, as amended on June 21, 2005
Exhibit 1.2	Regulations of the Board of Directors of ORIX Corporation, as amended on April 26, 2005

Exhibit 1.3	Share Handling Regulations of ORIX Corporation, as amended on May 20, 2005
Exhibit 7.1	A statement explaining in reasonable detail how ratios in the annual report were calculated
Exhibit 8.1	List of subsidiaries
Exhibit 11.1	Code of ethics
Exhibit 12.1	Certifications required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a))
Exhibit 13.1	Certifications required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)
Exhibit 15.1	Consent of independent registered public accounting firm

We have not included as exhibits certain instruments with respect to our long-term debt. The total amount of long-term debt securities of us or our subsidiaries authorized under any instrument does not exceed 10% of our total assets. We hereby agree to furnish to the SEC, upon its request, a copy of any instrument defining the rights of holders of long-term debt of us or of our subsidiaries for which consolidated or unconsolidated financial states are required to be filed.

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SIGNATURES

The company hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

ORIX KABUSHIKI KAISHA

By: /s/ MASARU HATTORI

Name:	**Masaru Hattori**
Title:	**Attorney-in-Fact**
	Corporate Senior Vice President

Date: July 14, 2005

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of ORIX Corporation:

We have audited the accompanying consolidated balance sheets of ORIX Corporation (a Japanese corporation) and its subsidiaries as of March 31, 2004 and 2005, and the related consolidated statements of income, shareholders equity and cash flows for each of the years in the three-year period ended March 31, 2005. In connection with our audits of the consolidated financial statements, we have also audited financial statement Schedule II. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ORIX Corporation and its subsidiaries as of March 31, 2004 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, as of April 1, 2002, the Company and its subsidiaries changed the accounting for unamortized deferred credits and goodwill resulting from prior business combinations and equity method investments.

The accompanying consolidated financial statements as of and for the year ended March 31, 2005 have been translated into United States dollars solely for the convenience of the readers. We have recomputed the translation, and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 (ab).

KPMG AZSA & Co.

Tokyo, Japan

May 18, 2005

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CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2004 AND 2005

ORIX Corporation and its Subsidiaries

	Millions of yen		Millions of U.S. dollars
	2004	2005	2005
Assets			
Cash and cash equivalents	¥ 152,235	¥ 145,380	$ 1,354
Restricted cash	35,621	53,193	495
Time deposits	677	8,678	81
Investment in direct financing leases	1,453,575	1,451,574	13,517
Installment loans	2,234,940	2,386,597	22,224
Allowance for doubtful receivables on direct financing leases and probable loan losses	(128,020)	(115,250)	(1,073)
Investment in operating leases	536,702	619,005	5,764
Investment in securities	551,928	589,271	5,487
Other operating assets	72,049	82,651	770
Investment in affiliates	157,196	274,486	2,556
Other receivables	142,711	160,263	1,492
Inventories	121,441	113,203	1,054
Prepaid expenses	44,139	45,082	420
Office facilities	71,196	65,410	609
Other assets	178,567	189,410	1,763
	¥ 5,624,957	¥ 6,068,953	$ 56,513
Liabilities and shareholders equity			
Short-term debt	¥ 903,916	¥ 947,871	$ 8,826
Deposits	292,545	336,588	3,134
Trade notes, accounts payable and other liabilities	279,852	270,737	2,521
Accrued expenses	96,668	95,407	888
Policy liabilities	592,782	550,880	5,130
Income taxes:			
Current	31,703	24,252	226
Deferred	122,234	155,607	1,449
Deposits from lessees	78,491	98,415	917
Long-term debt	2,662,719	2,861,863	26,649
Total liabilities	5,060,910	5,341,620	49,740
Commitments and contingent liabilities			
Shareholders equity:			
Common stock:			
Authorized 259,000,000 shares			
Issued 84,366,314 shares in 2004 and 87,996,090 shares in 2005	52,068	73,100	681
Additional paid-in capital	70,015	91,045	848

Retained earnings:			
Legal reserve	2,220	2,220	21
Retained earnings	481,091	570,494	5,312
Accumulated other comprehensive loss	(33,141)	(1,873)	(17)
Treasury stock, at cost:			
675,307 shares in 2004 and 607,384 shares in 2005	(8,206)	(7,653)	(72)
	564,047	727,333	6,773
	¥ 5,624,957	¥ 6,068,953	$ 56,513

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

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CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED MARCH 31, 2003, 2004 AND 2005

ORIX Corporation and its Subsidiaries

	Millions of yen			Millions of dollars
	2003	**2004**	**2005**	**2005**
Revenues:				
Direct financing leases	¥ 122,928	¥ 112,372	¥ 113,514	$ 1,057
Operating leases	159,807	166,587	181,808	1,693
Interest on loans and investment securities	131,590	116,744	136,035	1,267
Brokerage commissions and net gains on investment securities	10,857	26,025	33,906	316
Life insurance premiums and related investment income	138,439	134,154	137,004	1,276
Real estate sales	71,165	98,034	123,162	1,147
Gains on sales of real estate under operating leases	3,257	9,116	1,554	14
Transportation revenues			55,339	515
Other operating revenues	80,847	93,638	134,628	1,254
Total revenues	718,890	756,670	916,950	8,539
Expenses:				
Interest expense	71,380	60,060	56,562	527
Costs of operating leases	117,362	120,566	124,658	1,161
Life insurance costs	125,684	119,653	122,896	1,144
Costs of real estate sales	60,769	88,679	113,830	1,060
Costs of transportation revenues			46,594	434
Other operating expenses	41,319	52,551	82,833	771
Selling, general and administrative expenses	144,271	161,835	181,620	1,692
Provision for doubtful receivables and probable loan losses	54,706	49,592	39,574	369
Write-downs of long-lived assets	50,682	12,345	11,713	109
Write-downs of securities	14,325	5,240	4,930	46
Foreign currency transaction loss, net	1,211	1,577	783	7
Total expenses	681,709	672,098	785,993	7,320
Operating income	37,181	84,572	130,957	1,219
Equity in net income of affiliates	6,203	17,924	20,043	187
Gains (losses) on sales of affiliates	2,002	(542)	3,347	31
Income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes	45,386	101,954	154,347	1,437
Provision for income taxes	20,808	51,444	68,826	641
Income from continuing operations	24,578	50,510	85,521	796
Discontinued operations:				
Income from discontinued operations, net (including gains on sales of ¥3,747 million in fiscal 2004 and ¥9,964 million in fiscal 2005)	902	4,916	10,037	93
Provision for income taxes	(388)	(2,015)	(4,062)	(37)
Discontinued operations, net of applicable tax effect	514	2,901	5,975	56
Income before extraordinary gain and cumulative effect of a change in accounting principle	25,092	53,411	91,496	852
Extraordinary gain, net of applicable tax effect	3,214	609		

Cumulative effect of a change in accounting principle net of applicable tax effect	1,937			
Net income	¥ 30,243	¥ 54,020	¥ 91,496	$ 852

	Yen			Dollars
Amounts per share of common stock:				
Basic:				
Income from continuing operations	¥ 293.74	¥ 603.58	¥ 1,016.78	$ 9.47
Discontinued operations	6.14	34.67	71.04	0.66
Extraordinary gain	38.41	7.27		
Cumulative effect of a change in accounting principle	23.15			
Net income	361.44	645.52	1,087.82	10.13
Diluted:				
Income from continuing operations	277.27	563.39	937.70	8.73
Discontinued operations	5.77	31.47	64.48	0.60
Extraordinary gain	36.14	6.60		
Cumulative effect of a change in accounting principle	21.77			
Net income	340.95	601.46	1,002.18	9.33
Cash dividends	15.00	25.00	25.00	0.23

The accompanying notes to consolidated financial statements are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

FOR THE YEARS ENDED MARCH 31, 2003, 2004 AND 2005

ORIX Corporation and its Subsidiaries

	Millions of yen			Millions of dollars
	2003	**2004**	**2005**	**2005**
Common stock:				
Beginning balance	¥ 51,854	¥ 52,067	¥ 52,068	$ 485
Exercise of warrants, stock acquisition rights and stock options	213	1	1,032	10
Conversion of convertible bond			20,000	186
Ending balance	52,067	52,068	73,100	681
Additional paid-in capital:				
Beginning balance	69,823	70,002	70,015	652
Exercise of warrants, stock acquisition rights and stock options	211	8	1,031	10
Conversion of convertible bond			19,999	186
Other, net	(32)	5		
Ending balance	70,002	70,015	91,045	848
Legal reserve:				
Beginning balance	2,220	2,220	2,220	21
Ending balance	2,220	2,220	2,220	21
Retained earnings:				
Beginning balance	400,175	429,163	481,091	4,480
Cash dividends	(1,255)	(2,092)	(2,093)	(20)
Net income	30,243	54,020	91,496	852
Ending balance	429,163	481,091	570,494	5,312
Accumulated other comprehensive income (loss):				
Beginning balance	(13,440)	(39,747)	(33,141)	(308)
Net change of unrealized gains on investment in securities	(12,839)	23,131	15,102	141
Net change of minimum pension liability adjustments	2,652	(3,785)	6,877	64
Net change of foreign currency translation adjustments	(15,119)	(15,710)	6,019	56
Net change of unrealized losses on derivative instruments	(1,001)	2,970	3,270	30
Ending balance	(39,747)	(33,141)	(1,873)	(17)
Treasury stock:				
Beginning balance	(8,124)	(8,247)	(8,206)	(77)

Exercise of stock options	8	202	805	7
Other, net	(131)	(161)	(252)	(2)
Ending balance	(8,247)	(8,206)	(7,653)	(72)
Total shareholders equity				
Beginning balance	502,508	505,458	564,047	5,253
Increase, net	2,950	58,589	163,286	1,520
Ending balance	¥ 505,458	¥ 564,047	¥ 727,333	$ 6,773
Summary of comprehensive income:				
Net income	¥ 30,243	¥ 54,020	¥ 91,496	$ 852
Other comprehensive income (loss)	(26,307)	6,606	31,268	291
Comprehensive income	¥ 3,936	¥ 60,626	¥ 122,764	$ 1,143

The accompanying notes to consolidated financial statements are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2003, 2004 AND 2005

ORIX Corporation and its Subsidiaries

	Millions of yen			Millions of dollars
	2003	2004	2005	2005
Cash flows from operating activities:				
Net income	¥ 30,243	¥ 54,020	¥ 91,496	$ 852
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	118,097	121,530	132,158	1,231
Provision for doubtful receivables and probable loan losses	54,706	49,592	39,574	369
Increase (decrease) in policy liabilities	5,889	(15,771)	(41,902)	(390)
Deferred tax provision (benefit)	(23,222)	(2,881)	15,533	145
Gains from securitization transactions	(9,649)	(446)	(12,520)	(117)
Equity in net income of affiliates	(6,203)	(17,924)	(20,043)	(187)
(Gains) losses on sales of affiliates	(2,002)	542	(3,347)	(31)
Extraordinary gain	(3,214)	(609)		
Cumulative effect of a change in accounting principle	(1,937)			
Gains on sales of available-for-sale securities	(7,588)	(8,728)	(14,761)	(137)
Gains on sales of real estate under operating lease	(3,257)	(9,116)	(1,554)	(14)
Gains on sales of operating lease assets other than real estate	(4,424)	(2,783)	(4,746)	(44)
Write-downs of long-lived assets	50,682	12,345	11,713	109
Write-downs of securities	14,325	5,240	4,930	46
Decrease (increase) in restricted cash	1,195	(17,393)	(17,517)	(163)
Increase in trading securities	(5,730)	(4,831)	(21,430)	(200)
Increase in inventories	(21,894)	(18,197)	(21,906)	(204)
Increase in prepaid expenses	(2,975)	(1,974)	(975)	(9)
Increase (decrease) in accrued expenses	(2,370)	7,481	8,255	77
Increase in deposits from lessees	4,303	683	19,567	182
Other, net	25,175	2,032	(36,058)	(337)
Net cash provided by operating activities	210,150	152,812	126,467	1,178
Cash flows from investing activities:				
Purchases of lease equipment	(923,483)	(873,248)		