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.

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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,

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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.

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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.

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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 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

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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.

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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 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.

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

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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 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 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

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 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.

	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	