RISK FACTORS

Investing in our securities involves a high degree of risk. 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."

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

The Japanese economy has suffered from recession for much of the last decade. While some signs of improvement in the Japanese economy were seen in fiscal 2004, the credit quality of our customers and the value of our assets have been, and may continue to be, adversely 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, while our allowance for doubtful receivables on direct financing leases and probable loan losses may prove to be inadequate. Adverse economic conditions may prevent our customers from meeting their financial obligations, while 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. Margins on our operating assets may also decline. Our ability to re-lease or remarket equipment on favorable terms 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.

Continued deflation in Japan or other deterioration of the real estate market 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 have been required to record 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. Determinations we make with respect to provisions for probable loan losses take into consideration the potential recovery of a portion of these loans pursuant to the exercise of collateral rights in the event of default.

Deflation, especially of land prices, or any other adverse conditions or events related to the real estate market in Japan or overseas may adversely affect the value of 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 event may have an adverse effect on our results of operations and financial condition.

Land prices have declined for a number of consecutive years in Japan. While some land prices in certain areas of Tokyo were reported in March to have stabilized, there was an overall decline in land prices in Japan in the year ended December 31, 2003 according to the Japanese Ministry of Land, Infrastructure and Transport, or MoLIT. There is also a risk that one or more natural or man-made events, such as an earthquake or act of terrorism, may adversely affect the value of our long-lived assets or the collateral underlying loans we make. The possibility of disaster or damage from earthquakes in Japan is generally higher than in other parts of the world. If an earthquake or other such disaster resulting in severe destruction were to occur in Japan, particularly in major centers such as the Tokyo metropolitan area where a substantial portion of our operations, long-lived assets and loans are concentrated, it would have a materially adverse effect on our business, results of operations and financial condition.

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 of the real estate industry deteriorate further.

Japanese real estate-related companies and construction companies have been 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 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 other difficult business conditions resulting from the collapse of the bubble economy, including the lack of liquidity in the real estate market and a decrease in major development projects. As a result of these and other factors, real estate-related 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

We are subject to risks relating to changes in market rates of interest and currency exchange rates.

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. The economies of Japan and the United States, where a substantial amount of our activities are concentrated, showed signs of economic recovery in fiscal 2004. If this recovery is sustained, inflationary pressures or other factors could result in higher interest rates. An increase in market interest rates could increase the repayment burden our customers bear with respect to leases and loans from us and others, particularly under floating interest rate loans. These burdens could impact the financial condition of our customers and adversely affect their ability to repay their obligations, possibly resulting in a default on our leases and loans.

Alternatively, a decrease in interest rates could result in faster prepayments of loans. Moreover, changes in market interest rates could affect the interest rates on our interest-earning assets differently than the interest rates on our interest-bearing liabilities, which could cause our interest expenses to increase relative to interest income.

Not all of our assets and liabilities are matched by currency. In addition, a significant portion of our operating assets, revenues and profits are located overseas, or are derived from our overseas operations. A rapid or significant change in currency exchange rates could have an adverse impact on our assets, and our financial condition and results of operations.

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 important competitive factors include industry experience, client service and relationships. In recent years, a number of 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, including because we want to maintain our interest margins, to match those terms. Because some of our competitors are larger than us and may have access to capital at a lower cost than we have, they may be better able to maintain profitable interest margins at reduced prices. To the extent that we match our competitors' pricing or terms, we may experience lower interest margins.

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, medium-term notes, straight bonds, asset-backed securities 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 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 Japanese commercial banks. A small portion of our short-term funding is provided under committed facilities and we rely on the capital markets in the form of commercial paper. We are taking steps to reduce refinancing risks by diversifying our funding sources and establishing committed credit facilities with Japanese and foreign banks. 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. Economic conditions in the United States appear to have improved during fiscal 2004. However, the sustainability of any economic recovery is uncertain and economic strength indicators continue to be mixed. Our operations have in the past been, and may again be, adversely affected by a deterioration of economic conditions in the United States. Adverse effects on our US operations might include:

- 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 continue to 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 or losses on sales of, or unrealized losses on, 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 from the second half of 1997. While most of the economies where we do business appear to have stabilized or recovered in fiscal 2004, there is no guarantee that such stabilization or recovery is sustainable. 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, adverse developments in China could adversely affect our Asian operations since the impact of economic developments in China may affect the Japanese and other Asian economies. We may suffer losses on our Asian investments, and our Asian businesses may experience poor operating results, if these countries were to experience:

- declines in the value of the local currency;
- declines in gross domestic product;

- declines in corporate earnings;
- political turmoil; or
- stock market volatility.

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 primarily in debt, but also in 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 equity prices improved over the course of fiscal 2004, 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, 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 charges of this kind in the past and may need to record more charges of this kind 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 obligations are particularly low.

We also utilize derivative financial instruments for 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 valuation 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 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 realize 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 lease, 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;
- economic conditions and trends;

- charge-off experience;
- delinquencies;
- future cash flows; 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 credit losses in these portfolios. In particular, this allowance may ultimately be inadequate if adverse changes in the Japanese economy or other economies in which we compete, or discrete events, adversely affect specific customers, industries or markets. If our allowance for doubtful receivables on direct financing leases and probable loan losses is insufficient to cover these changes or events, we could be adversely affected.

Our credit related costs might increase

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

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

As a result of increased investments and the accumulated earnings of affiliates that are accounted for using the equity method, our investment in affiliates is significant. We invested in some of these companies as part of our corporate rehabilitation business. In recent years, the contribution from equity method affiliates to our consolidated statements of income has increased, comprising a significant portion of income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes in fiscal 2004. There is no assurance that this contribution can be maintained. A poor performance or failure of these investments will adversely affect our results of operations and financial condition. In addition, as part of our corporate rehabilitation business we have invested in a number of troubled or distressed companies which we now fully consolidate. The operations of some of these companies, which include a sporting goods distributor and a logistics company, are very different from our core businesses. 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. We may also need to invest additional capital in certain of these companies if their financial condition deteriorates.

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 large investments in the airline industry. Due to the deterioration of operating conditions of many entities in the industry in past years, 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. Although the financial condition of the airline industry appeared to have stabilized somewhat in fiscal 2004, the sustainability of this stabilization is uncertain. If the financial condition of 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 the 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 airlines. 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 systems malfunctions or failures, regulatory breaches, human errors, employee misconduct, external fraud and other external factors. For example, our building maintenance services may fail to prevent a break-in. These events can potentially result in financial loss or harm to our reputation, or otherwise hinder our operational effectiveness. Our management attempts to control operational risk and keep it at 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 from time to 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 of our operations as part of our business decisions and risk management. The failure of these systems or the wrongful use of these systems by our employees or third parties could result in the inability to make or receive payments in a timely manner, the leakage of confidential 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 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, we are in contact with an increasing array and number of private groups and organizations in society at large, in particular 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 condominium development. We may suffer damage to our reputation if these activities are negatively portrayed in the press and our operations 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, such that we may not be able to obtain a judgment that fully compensates us for the defects or any resulting capital expenditures. Defective design or construction resulting in personal injury, even if covered a contractor indemnification, could adversely affect our reputation.

We will be exposed to increased risks as we expand the range of our products and services

As we expand the range of our products and services beyond our traditional businesses and as the sophistication of financial products and management systems grows, we will be exposed to new and increasingly complex risks. We may have only limited experience with the risks related to the expanded range of these products and services. Our risk management systems may prove to be inadequate and may not work in all cases or to the degree required. As a result, we are subject to substantial market, credit and other risks in relation to the expanding scope of our products and services and trading activities, 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.

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 finance or the management of physical assets. If we cannot develop or hire specialists in these areas, or if our specialists leave and work for our competitors, 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 materially adversely affected by unpredictable events and any continuing adverse effect from those events. Unpredictable events include single or multiple 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 these sorts of events would include the Hanshin earthquake in Japan, the terrorist attacks on the United States on September 11, 2001 and the outbreak of Severe Acute Respiratory Syndrome, or SARS, in Asia in 2003.

Our 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 and certain other businesses are subject to regulation and oversight by authorities in Japan. Applicable regulations may limit the way in which we are able to operate these businesses and may constrain these businesses from pursuing otherwise attractive business opportunities. These businesses are subject to monitoring and inspection by the authorities. 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 to which our businesses may be subject, see “Item 4. Information on the Company—Regulations.”

We may also be the subject of regulatory scrutiny if, for example, a third party purchases used equipment from us and then disposes of it illegally. Although such an action may not constitute a direct regulatory infringement on our part, potential negative media reports of such an event could have an adverse impact on our reputation.

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

Many of the financial instruments and transactions our businesses in Japan and overseas sell or market are structured with 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, indeterminate amounts or limit our operations, and their existence and magnitude may remain unknown for substantial periods of time. A substantial legal liability or regulatory action could have a material adverse effect on our business, results of operations, financial condition, reputation and credibility.

Our wholly-owned life insurance company, ORIX Life Insurance, is subject to risks particular to its business

ORIX Life Insurance Corporation, or ORIX Life Insurance, is a wholly-owned subsidiary. It faces unpredictable increases in insurance claims and may incur valuation losses if the value of securities it purchases for investment 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 subject to assessment by the PPC based on their respective share of insurance industry premiums and policy reserves. Since some life insurers have become insolvent since 1998, the PPC’s financial resources have already been substantially reduced in providing financial support to those companies. If there are further bankruptcies of life insurers, solvent life insurers 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 significant downgrade of our credit ratings could have a negative effect on our derivative transactions

A significant downgrade of our credit ratings by one or more of the 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 may be unable to enter into some transactions. This could have a negative impact on our risk management, and the profitability of our trading activities, and 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 in 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 it directly in Japan.

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

We ordinarily carry comprehensive casualty insurance covering our real estate investments with policy specifications and insured limits adequate and appropriate under anticipated circumstances. There are, however, certain types of losses that are uninsurable or not generally insured against in Japan, or for which only limited insurance coverage is available. For example, we do not expect to carry insurance for damages potentially resulting from an intentional or grossly negligent violation of law, war or terrorist acts, or natural disasters such as earthquakes.

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

We ordinarily do not carry earthquake insurance on our real estate investments. Most of our real estate investments are located in Japan, a region subject to a relatively high risk of magnitude and frequency of earthquakes.

There is a risk of avoidance and fraudulent conveyance in relation to real estate purchased from insolvent entities

If we purchase a real estate property in Japan from a seller or a predecessor thereof who later becomes subject to an insolvency proceeding under Japanese law, we face the potential risk that the acquisition will be voidable. In such a case, we could be required to return the property that we purchased to the seller or a predecessor thereof or to the relevant trustee in an insolvency proceeding.

In addition, if a seller sells a property to us while the seller or a predecessor is insolvent or as a result of the sale becomes insolvent, there is a risk that the sale could be deemed a fraudulent conveyance under Japanese law and subject to rescission. In such a case, we would be required to return the property and take an unsecured claim for the return of the purchase price.

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 Shares. These shareholders may for strategic or investment reasons decide to reduce their shareholding in us. Dispositions of the Shares, particularly by such major shareholders, may adversely affect market prices for the Shares. For information on shareholdings, see “Item 7. Major Shareholders and Related Party Transactions.”

We expect to be treated as a passive foreign investment company

We expect, for the purpose of US federal income taxes, to be treated as a passive foreign investment company because of the composition of our assets and the nature of our income. If an investor in our securities is a US person, because we are a passive foreign investment company, such investor will be subject to special US federal income tax rules that may have negative tax consequences on a disposition of those securities or on receipt of certain distributions on those securities and will require annual reporting.

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

Market prices for the ADNs or ADSs may fall if the value of the yen declines against the dollar. In addition, the amount of principal, interest and other payments made to holders of ADNs, and 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 Association.”

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 3-22-8 Shiba, Minato-ku, Tokyo 105-8683, 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 1177 Avenue of the Americas, 10th floor New York, New York 10036 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 include 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 Bank, Ltd. and Mizuho Holdings, Inc.), and the Bank of Kobe (presently Sumitomo Mitsui Banking Corporation). 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 Exchanges and the Osaka Securities Exchange. On September 16, 1998, ORIX listed on the New York Stock Exchange, with the ticker symbol "IX."

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.