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 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 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.

1. Risk Related to our Financial Affairs

(1) Our allowance for doubtful receivables on direct financing leases and probable loan losses may be insufficient and our credit-related costs might increase

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.

In order to enhance our collections from debtors, 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 loans or extend additional loans to such companies. Furthermore, if economic or the market conditions are adverse, the value of underlying collateral and guarantees may decline. As a result there is a possibility that credit-related costs might increase. If we need to increase our allowance for doubtful receivables on direct financing leases and probable loan losses to cover these changes or events, our financial results could be adversely affected.

(2) We may suffer losses on our investment portfolio

We hold investments in debt and equity securities, funds, ships, vessels and aircraft in Japan, the United States and other regions. The market values of our investments are volatile and may decline substantially in the current year or future years. Also, debt and equity securities classified as available-for-short-term-sale are measured at fair value and changes in their values have a direct influence on our income and losses. We record unrealized gains and losses on debt and equity securities classified as available-for-short-term-sale securities in shareholders' equity, net of income taxes, and do not ordinarily charge these directly to income and losses, unless we believe that declines in fair market value on all the securities (other than investment securities), are other than temporary. As the result of the U.S. sub-prime loan problem, market uncertainty has led to less liquidity of securities, greater volatility, widening of credit spreads and a lack of price transparency. Although we attempt to minimize risks through risk management procedures, further deterioration in global financial market conditions could cause us to suffer unexpected losses because of declines in the fair market value of securities.

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

Our business activities are subject to risks relating to changes in market interest rates and currency exchange rates in Japan and overseas. Although we conduct asset-liability monitoring and management ("ALM"), fixed and variable interest rates and terms of fixed-rate assets and liabilities are not necessarily uniform among our assets and liabilities. As such, interest rate fluctuations such as an increase or decrease in the market interest rate or a discrepant movement in long-term or short-term interest rates could adversely affect our operating results.

In addition, the value of our assets may move independently of market interest rates. In a situation where procurement costs are increasing due to a significant increase in market interest rates or the perception that an increase may occur, it may be that for new transactions, including financing leases and loans, changes in lease payments or loan interest rates will diverge from the trend in market interest rates.

Furthermore, changes in market interest rates could have an adverse effect on the credit condition of our assets and our asset structure. With respect to our floating rate loan assets, if market interest rates increase, this may increase the repayment burden our customers bear with respect to their loans. These increased burdens could adversely affect the financial condition of our customers and their ability to repay their obligations to us, possibly resulting in defaults on lease transactions and loans. Alternatively, a decline in interest rates could result in faster prepayments of loans and a decrease in the value of our assets.

Not all of our assets and liabilities are matched by currency. In addition, a significant portion of our operating assets, revenues and pre-tax income is attributable to overseas operations, in particular in the United States, and subject to foreign exchange risks. We have equity and accumulated retained earnings in our subsidiaries and affiliates in the United States and other countries outside of Japan, which is also subject to foreign exchange risk. As a result, a significant change in currency exchange rates could have an adverse impact on our financial condition and results of operations.

(4) Our funding may be adversely affected if our credit ratings are downgraded

We obtain credit ratings from rating companies. 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 capital markets, thereby adversely affecting our financial position and liquidity. Although we have access to other sources of liquidity, including bank borrowings and sales of our assets, we cannot be sure that these other sources will be adequate or available on terms acceptable to us if our credit ratings are downgraded or other adverse conditions arise. As a result, our business activities, financial condition and results of operations may be adversely affected by a credit ratings downgrade.

(5) Our use of derivatives to manage risk and reduce price fluctuations in our investment portfolio may adversely affect our financial condition and results of operations

We utilize derivative instruments to reduce investment portfolio price fluctuations, to manage interest rate and foreign exchange rate risk, and as part of our trading activities. However, we may not be able to successfully manage our risks through the use of derivatives. Counterparties may fail to honor the terms of their derivatives contracts with us. We may suffer losses from trading activities. As a result, our operations and financial condition could be adversely affected. For a discussion of derivative financial instruments and hedging, see Note 26 in "Item 18. Financial Statements."

2. Risks related to our business overall

(1) We face various operational risks

Our various businesses entail many sorts of operational risk. Operational risk is defined as the risk of loss resulting from inadequacies in, or failures by, internal processes, people and systems, or from external events. Examples of operational risk include inappropriate sales practices, disclosure of confidential information, misconduct of officers or employees, errors in the settlement of our accounts, erroneous stock orders, computer system security failures and conflicts with our employees concerning labor and workplace management.

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. Even if we do not incur direct pecuniary loss, our reputation may be adversely affected.

Our most important operational risks are as follows.

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

Our business and employees in Japan are subject to various laws and regulations, including those applicable to financial institutions such as Moneylending Business Law, Installment Selling Control Law, Insurance Business Law, Banking Law, Trust Business Law, Real Estate Trading Business Law, Building Standards Law as well as general laws applicable to our business activities such as Company Law, Financial Instruments and Exchange Law, Antimonopoly Act, the Personal Information Protection Act and we are under the regulatory oversight of the government authorities. Our businesses outside of Japan are also subject to the laws and regulations of the jurisdictions in which they operate and are subject to oversight by the regulatory authorities of those jurisdictions. Our compliance and legal risk management structures are designed to prevent violations of such laws and regulations, but they may not be effective in preventing all future violations. We engage in a wide range of businesses and may expand into new businesses through our acquisition activities. We implement various internal control measures for our businesses, however, with the expansion of our operations, these controls may be ineffective. In such cases, we may be subject to sanctions or penalties, and our reputation may be adversely affected. Future violations of laws and regulations could result in regulatory action and harm our reputation, and our business, financial condition and results of operations could be adversely affected. Even if there are no violations of laws, if we are investigated by government authorities and this information becomes public, our reputation may be harmed and our results of operations may be adversely affected.

(ii) Failures in our computer and other information systems could hinder our operations and damage our reputation and relationship with customers

We are highly reliant on computer systems and other information systems for financial transactions, personal information management, business monitoring and processing and as part of our business decision-making and risk management activities. We are also developing data center services for our customers. System shutdowns, malfunctions or failures due to unexpected contingencies, the mishandling or fraudulent acts of employees or third parties, or infection by a computer virus could have an adverse effect on our operations, such as hindered receipt and payment of monies, leak or destruction of confidential information or personal information, generation of errors in information used for business decision-making and risk management, and the suspension of other services provided to our customers. In such event, our liquidity or that of the customer who relies on us for financing or payment or who utilizes our data center services could be adversely affected, and our relationship with the customer could also be adversely affected. As a result, we could be sued or subject to administrative penalty or our reputation or credibility could be adversely affected.

Our information system equipment could suffer damage from a large-scale natural disaster or terrorism. Since information systems serve an increasingly important role in business activities, the risk of stoppage of the network or information systems due to disaster or terrorism is increasing. If networks or information systems fail, we could experience interruption of business activity, delay in payment or sales, or substantial costs for recovery of functionality.

(iii) 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 and requires the retention of such resources in order to successfully compete in markets in Japan and overseas. Much of our business requires employment of talented individuals who have experience and knowledge in the financing field. If we cannot develop, hire or retain the necessary human resources, or if such personnel resign, we may not be able to achieve our strategic goals.

(2) The departure of senior management could adversely affect us

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

(3) If our independent registered public accounting firm finds that our internal control over financial reporting is insufficient, investors may lose confidence in the reliability of our financial statements, resulting in a negative impact on our share price, financial condition and reputation

The U.S. Securities and Exchange Commission (the "SEC"), as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring foreign private issuers to include a report of management on the company's internal control over financial reporting in its Annual Report on Form 20-F that contains an assessment by management of the effectiveness of the company's internal control over financial reporting. In addition, the company's independent registered public accounting firm must attest to and report on the effectiveness of the company's internal control over financial reporting. These requirements are reflected in our Annual Report on Form 20-F (starting with that issued for the fiscal year March 31, 2007). Although we have diligently and vigorously established and assessed our internal control over financial reporting in order to ensure compliance with Section 404 requirements, in the future periods our independent registered public accounting firm may identify material weaknesses in our internal control over our financial reporting and may issue a report that our internal control over financial reporting is ineffective. These possible outcomes could result in an adverse reaction in the financial market due to a loss of investor confidence in the reliability of our financial statements, which could have a negative impact on our share price, reputation, business activities, results of operations and financial condition.

(4) Our risk management may not be effective

We seek continuously to improve our risk management function. However because of the expansion of our business or changes in our business environment, there is a possibility that our risk management may not be effective in some cases. As a result our business, results of operations and financial condition could be adversely affected.

3. Risks related to our external environment

(1) 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 implemented 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.

(2) Our access to liquidity and capital may be restricted by economic conditions or instability in the financial markets

Our primary sources of funds are borrowings from banks and other institutional lenders, funding from capital markets, such as offerings of commercial paper, medium-term notes, straight bonds, asset-backed securities and other debt securities, and deposits. Such sources include a significant amount of short-term funding such as commercial paper and borrowings from various institutional lenders. Due to turmoil in financial markets, it is possible that risks related to our liquidity could significantly increase in the event that further concerns emerge related to potential bankruptcies of financial institutions. Such developments may result in increased uncertainty regarding financial systems, increases in market interest rates, additional credit exposure or weak investor sentiment that could adversely affect our access to funding, business activities, financial condition and operating results.

We have taken what we believe are appropriate countermeasures in consideration of such liquidity risks, such as establishing committed credit facilities for the purpose of supplementing liquidity. However, no assurance can be provided that such measures will be adequate to deal with severely adverse borrowing conditions.

(3) Negative press coverage or rumors could affect our business, financial condition, results of operation or share price

Our business relies on the confidence of customers and market participants. Negative press coverage or rumors (including on the Internet) about our activities or those of our directors, executive officers and employees or regarding related industries, even if not based on fact, could harm our reputation. Even if we provide appropriate explanations to the press and other interested parties, there is no assurance that we can prevent an adverse effect on our reputation; as a result, our results of operation could deteriorate or there could be an adverse effect on our share price.

(4) Our business may be adversely affected by economic fluctuations and political disturbances

We conduct business operations in Japan as well as overseas, including in the United States, Asia, Oceania, the Middle East and Europe. Economic deterioration, volatility in financial markets, shifts in commodity market prices, political instability or religious strife in any such region could adversely affect our operations.

For example, if as a result of the U.S. sub-prime loan problem and other factors, unstable market conditions continue and global financial market conditions deteriorate further, valuation of our securities, loans and other commitments could be subject to greater uncertainty. Notwithstanding our attempt to minimize these risks through risk management procedures, our financial condition and results of operations could be adversely affected by such conditions.

(5) Changes in laws, regulations and accounting standards may affect our business, results of operations and financial condition

Changes in laws, regulations and accounting standards may affect the way we conduct our business, the products we may offer in Japan or overseas and our customers, borrowers and invested companies. Such changes are unpredictable, which may cause costs to increase, and therefore our business, results of operations and financial condition could be adversely affected as a result.

(6) Our results of operations and financial condition may be 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, such as terrorism and earthquakes, that may, among other things, cause unexpectedly large market price movements or an unexpected deterioration of economic conditions of a country.

4. Risks related to specific businesses

(1) Our real estate-related business exposes us to various risks

The main areas of our real estate-related business operations are real estate-related loans and real estate business. Real estate-related loans are comprised of loans secured by real estate collateral, loans to domestic real estate companies or construction companies and non-recourse loans for which cash flow from real estate is the main source of repayment. Real estate business is the construction and sale of condominiums; the development and lease of office buildings, logistics warehouses; the operation of hotels, golf courses and training facilities; the development and operation of senior housing; integrated facilities management and related services; and asset management services for real estate investment trusts (REITs).

In Japan and overseas, adverse changes in the balance of supply and demand in real estate markets, or adverse changes in the funding environment for the purchase and development of real estate may cause the condition of the real estate market to deteriorate. See “Item 4. Information on the Company—Operating Environment, Real Estate.” This may adversely affect our business activities, the value of our long-lived assets and the value of the collateral underlying the loans we make. Any such events could have an adverse effect on our results of operations and financial condition.

When we commence a building construction project, we try to obtain indemnity against any breach or defect of property to the extent possible from the contractor. When we purchase a property, we try to obtain indemnity to the extent possible from the seller to cover losses and expenses caused by any defects of geological condition, structure or material in relation to such property. If the construction work is postponed or cancelled due to contractor’s circumstances, or if there is any defect in a building or facility sold or leased by us and indemnity is not provided by the contractor or seller or if the indemnities provided are insufficient due to a deterioration of their financial condition, we may be required to indemnify tenants or purchasers and thereby incur losses. Even if we do not have to indemnify tenants or purchasers, there might be an additional cost for us to maintain the construction or the project and we may need to pay higher costs than we originally budgeted. In addition, even if we do not incur financial loss, there could be an adverse affect on our reputation due to our involvement as the seller, owner or original developer of the property, depending on the breach or defect.

Before the Soil Contamination Measures Law came into effect in 2003, we did not, at the time of acquisition, investigate land (including land provided as collateral for a particular loan) that had been used as a factory site or operating facility in which hazardous materials were used or that otherwise could cause health problems due to soil contamination. If it is later determined that such land is polluted and it is necessary to take countermeasures under the Soil Contamination Measures Law, this could have an adverse effect on the sale of the land or the amounts receivable on foreclosure from land held as collateral. Although we have conducted investigations at the time of acquisition with respect to land acquired after the Soil Contamination Measures Law came into effect, a subsequent determination that such land is polluted may have the same adverse consequences.

If the Building Standards Law, the City Planning Law or any other property related laws and regulations are amended, we may suffer additional responsibility and increase of costs. For example, any amendments to the Building Standards Law and other related laws and regulations triggered by the problems of asbestos or inadequate earthquake resistance in buildings could lead to increased costs due to tightening of internal due diligence or prolonged project periods due to tightened operating processes. Changes of the initial project plans may be required for real-estate development projects, depending on the results of discussions with the neighboring residents, even though all the approvals and licenses required for such projects may have been previously obtained. Also, such conditions may result in an increased likelihood that sales will become difficult due to lowered credibility of the real estate market or shifts in market preferences. These factors could result in a decline in our revenue. Furthermore, since the real estate-related companies to which we make loans may be affected in the same way, debt collection from such companies could be difficult due to deterioration of their business condition. The liquidity of properties held by us as collateral may decline, which could also make debt collection difficult.

We ordinarily carry comprehensive property and 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 natural disasters such as earthquakes or typhoons because insurance coverage for such damages is limited and the insurance premium is relatively expensive.

In the event that 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 losses will not occur in respect of our real estate investments.

(2) We may be exposed to increased risks as we expand or reduce the range of our products and services, or acquire companies or assets

As we expand the range of our products and services beyond our traditional businesses, we may be exposed to new and increasingly complex risks, some or all of which may be uncontrollable, and we may incur substantial losses. In addition, our efforts to offer new services and products may not attain the expected results if business opportunities do not increase as expected or if the profitability of opportunities is undermined by competitive pressures. Restructuring of, or withdrawal from, businesses we engage in could harm our reputation and adversely affect our results of operations and financial condition.

We cannot guarantee that the price we pay for acquisitions will be fair and appropriate. If the results of the acquired company happen to be lower than what we expected at the time we made the acquisition, our acquisitions could result in future large write-downs related to goodwill and other assets.

In recent years, the contribution from consolidated subsidiaries and equity method affiliates to our consolidated statements of income has increased and has been an important component of our income. There is no assurance that this contribution can be maintained. While 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 expect. These companies have a wide range of business operations, including operations that are very different from financial services which is our core business. Failure to manage these companies effectively could result in financial losses as well as losses of future business opportunities. 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 may lose key personnel in the companies in which we invest if such personnel are not satisfied with our management.

Even if such affiliates or subsidiaries are not performing poorly, in the event that any such affiliate or subsidiary is implicated in a problem of significant public concern and we transfer our personnel to serve as directors or officers of such affiliate or subsidiary, irrespective of whether or not such persons perform their obligations, our reputation may be adversely affected.

(3) 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. We will suffer losses at the end of the lease if we cannot recover the residual value that we estimated at the beginning of the lease. This risk is particularly significant for operating leases. 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, we may incur impairment losses.

(4) Leasing equipment distributors' inappropriate sales activity may increase the number of customer claims against us and adversely affect our reputation and business performance

Our leasing business and reputation could be affected by the behavior of individual distributors of equipment and problems specific to this industry. In 2005, inappropriate sales activity was a serious problem in the telephone equipment leasing industry. In response, the Ministry of Economy, Trade and Industry amended the "Law concerning Specified Trades" in 2005 and has provided guidance to firms in the related industries on compliance measures. Because of this guidance, our customers may make claims or inquiries to us, and as a result leasing contracts may be cancelled before maturity. Any such early lease cancellations may adversely affect our business performance. The measures we have taken to resolve and address these problems or may take in the future may cause leasing business costs to increase and leasing transactions to decline, and may result in an adverse effect on our reputation.

(5) Increased competition or regulatory changes in the entertainment industry could weaken the financial condition of entertainment companies to which we provide credit, which may adversely affect their ability to repay us

We provide credit to entertainment-related industries such as the pachinko halls, primarily through direct financing leases and installment loans. Even though we have accumulated credit know-how from past experiences and secure these transactions with collateral liens after thorough examinations of the particular risks involved with these entertainment-related industries, our business activities, financial condition and our results of operations could be adversely affected by an intensification of competition or substantial changes in the regulation of these industries, which may adversely affect their financial condition and ability to repay us.

(6) Changes in the Moneylending Business Law and the reduction of the maximum chargeable interest rate may adversely impact our results of operations or financial condition

We provide credit to the consumer and commercial loan industry through installment loan transactions and other similar transactions. The business environment that surrounds this industry is very severe due to increasing risk of claims for the "gray zone" interest refunds and the strengthening of various related legal restrictions including restrictions on the maximum amount of loans that any borrower may make and a reduction in the maximum chargeable interest rates implemented by revisions to the Moneylending Business Law in response to the "gray zone" interest and multiple debtor problems. The performance trend of the consumer loan industry as a whole may adversely affect our results of operations or financial condition.

(7) Accidents in our environment-related business could damage our reputation and cause us to incur financial losses

We began operations of an industrial waste disposal facility in June 2006 as a Private Finance Initiative, or PFI, under contract with Saitama prefecture in Yorii-machi, Saitama. In addition, we were assigned shares of Kanematsu Environmental Corporation (now Funabashi Environmental Corporation) in March 2008 to develop an industrial waste disposal business mainly in Funabashi-shi, Chiba. With respect to the PFI in Saitama, in order to minimize the risk of emitting environmental pollutants, the center there utilizes the most advanced waste disposal techniques. To run and maintain the center appropriately, we have contracted with the waste disposal specialist firm that constructed the center to serve as operator. Though environmental pollution or fire could occur due to an operational mistake or defect in the disposal facility, we are insured to protect against a variety of such accident risks. In addition, we have ensured that, under our operating agreement with the operator, the operator that bears responsibility for operation and maintenance of the facility and under the design and construction contract bears responsibility for any defect in the facility.

However, in the event that the amount of insurance is not sufficient and the financial condition of the operator has deteriorated such that it cannot perform its contractual obligations or indemnify us for losses, we will be required to bear such losses. Further, we will be responsible for any accident occurring by reason of any event other than those for which the operator is responsible by contract. If loss resulting from such accident is not covered by our insurance, we will be required to bear such loss. Even if we do not incur any direct financial loss, our reputation could be adversely affected.

We provide various environment-related services such as waste management and recycle flow services, a loan program for environmentally conscious companies, energy solution and car sharing aimed at reduction of environmental burdens. In the event that a problem such as pollution or any violation of environment-related regulations or local agreements arises from any of these businesses, the reputation of our environment-related business could be adversely affected.

(8) Our medical business and nursing care business expose us to various risks

We operate the Kochi Health Sciences Center, which is a PFI business of Kochi prefecture and Kochi-city, through Kochi Medical PFI Corporation, which is one of our subsidiaries. The subsidiary is not engaged in medical services directly; however, since it contracts out for sterilization of medical materials, if an accident occurs the subsidiary could be liable for the contribution of the contracted service to the accident. Further, even if there is no pecuniary liability, our reputation could be adversely affected.

We provide rental services of medical instruments. We entrust the inspection of such medical instruments to professionals designated by the makers of the instruments. Such makers are responsible for any injuries or damages caused from the defects of such medical instruments. However, we also have potential obligations for such defects as a lessor. Further, even if there is no pecuniary liability, our reputation could be adversely affected in the event there are defaults.

We provide elderly care services to senior citizens, including the sale and operation of housing for senior citizens and at-home nursing care. If a nursing service accident occurs, we could be liable for damages and our reputation could be adversely affected. In addition, if the nursing care insurance system is modified to reduce public financial support and the economic burden on the user is thereby increased, the nursing market could shrink and our operating results could be adversely affected.

(9) If our advisory services and consulting services which we offer to our customers are insufficient, we may be obligated to compensate our customers

We provide M&A and financial advisory and consulting services to our customers at our subsidiaries such as ORIX M&A Solutions Corporation and Houlihan Lokey Howard & Zukin, or Houlihan Lokey. If such services are insufficient and our customers suffer losses as a consequence, we may be obligated to compensate our customers for those losses.

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

We are exposed to the risk of unpredictable increases in insurance payments for deaths and hospital benefits, in relation to the business of ORIX Life Insurance Corporation, or ORIX Life Insurance. It may incur valuation losses or losses on sales 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 make 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 members 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.

(11) If the reputation of our professional baseball team declines, our share price and financial condition could be adversely affected

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 consider the various social effects it may have and the reputation of the team. If the reputation of the baseball team declines, our business activities, financial condition, results of operations and our share price could be adversely affected as a consequence.

(12) Ship brokerage business exposes us to market and credit risks

We operate a ship brokerage business in which we place orders for new ships with shipbuilders and deliver those ships to our customers that purchase them for use. If any purchasing customers' defaults under its purchase agreement, we must purchase or hold the new ship ourselves. Because the process shipbuilding takes several years from placement of an order to delivery of the ship, a decline in the condition of the market may adversely affect our results of operation.

5. Risk related to holding or trading our shares

(1) Dispositions of the Shares 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 shareholdings in ORIX. Dispositions of the Shares, particularly dispositions of large numbers of shares 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." Due to changes in the global economy or political conditions, investors outside Japan may reduce their investments in Japanese stocks. A large portion of our Shares are held by investors outside Japan, and a reduction in Japanese stock investment by such investors may adversely affect market prices of our Shares.

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

Each of the Tokyo Stock Exchange, Inc. and the 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 shares. If we fail to meet the listing standards, 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 on section 1. If our Shares are changed to section 2, or are delisted, the liquidity of and prices for the Shares could be adversely affected.

(3) 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 Company Law 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 Company Law and our Articles of Incorporation, see “Item 10. Additional Information Memorandum and Articles of Incorporation.”

(4) 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.

(5) We expect to be treated as a passive foreign investment company

We expect to be treated as a passive foreign investment company under the US Internal Revenue Code because of the composition of our assets and the nature of our income. US 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, including re-characterization of gains realized on the disposition of, and certain dividends received on, the shares or ADSs as ordinary income earned pro rata over a US investor’s holding period for such shares or ADSs, taxed at the maximum rate applicable during the years in which such income is treated as earned, and subject to punitive interest charges for a deemed deferral benefit. 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.

(6) If you hold fewer than 10 Shares, you will not have all the rights of shareholders with 10 or more Shares

One “unit” of the Shares is comprised of 10 Shares, equivalent to 20 ADSs. Each unit of the Shares has one vote. A holder who owns Shares or ADSs other than in multiples of 10 or 20, respectively, will own less than a whole unit (i.e., for the portion constituting fewer than 10 Shares, or ADRs evidencing fewer than 20 ADSs). The Company Law imposes significant restrictions on the rights of holders of shares constituting less than a whole unit, which include restrictions on the right to vote. 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 10 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.

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

Market prices for our ADSs may decline 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 will decline if the value of the yen declines against the dollar.

(8) 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. The Shares represented by our ADSs are registered in the name of the depositary, through its custodian agent. 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 to directly 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 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 contact e-mail address is: orixir@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 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 Corporation and Iwai Corporation (presently Sojitz Corporation), the Sanwa Bank and Toyo Trust & Banking (presently Mitsubishi UFJ Financial Group, Inc.), the Industrial Bank of Japan and Nippon Kangyo Bank (presently Mizuho Financial Group, Inc.), and the Bank of Kobe (presently Sumitomo Mitsui Financial Group, Inc.). While we maintain certain business relationships with these companies, they now hold only a limited number of our Shares in the aggregate.

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 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 the number of our branches expanded. In April 1970, we listed our 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. In September 1998, ORIX listed on the New York Stock Exchange, or NYSE, with the ticker symbol "IX." ORIX delisted from the Nagoya Stock Exchange in October 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