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EXCHANGE RATES

In certain parts of this annual report, we have translated yen amounts into dollars for the convenience of readers. The rate that we used for translations was ¥98.23 = $1.00, which was the approximate exchange rate in Japan on March 31, 2009 using the telegraphic transfer rate of the Bank of Tokyo-Mitsubishi UFJ, Ltd. The following table provides the noon buying rates for Japanese yen per $1.00 in New York City for cable transfers in foreign currencies. As of June 19, 2009, the noon buying rate for Japanese yen per $1.00 in New York City for cable transfers in foreign currencies was ¥96.15 = $1.00. No representation is made that the yen or dollar amounts referred to herein could have been or could be converted into dollars or yen, as the case may be, at any particular rate or at all.

	Year Ended March 31,				
	2005	2006	2007	2008	2009
			(Yen per dollar)		
Yen per dollar exchange rates:					
High	¥114.30	¥120.93	¥121.81	¥124.09	¥110.48
Low	102.26	104.41	110.07	96.88	87.80
Average	107.28	113.67	116.55	113.61	100.85
At period-end	107.22	117.48	117.56	99.85	99.15

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

	High	Low
2008		
December	¥ 93.71	¥87.84
2009		
January	¥ 94.20	¥87.80
February	98.55	89.09
March	99.34	93.85
April	100.71	96.49
May	99.24	94.45

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 activities, financial condition and results of operations and the trading prices of our securities could be adversely affected by any of the factors discussed below or other factors. This annual report also contains forward-looking statements that involve 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. Risks related to our external environment

(1) Our business activities, financial condition and results of operations may be adversely affected by turmoil in the financial and capital markets and global economic conditions

The global economy is currently experiencing unprecedented turmoil in the world’s financial and capital markets. This turmoil has resulted in a variety of damaging effects on the operating environment of the financial industry, including a severe contraction in the availability of credit, a reduction in liquidity, a decrease of confidence in the financial system and global economic decline. The soundness of many financial institutions is dependent on that of other financial institutions through their mutual credits, trading and other transactions. Accordingly, uncertainty regarding the creditworthiness of or the likelihood of default by certain financial institutions could result in significant liquidity problems, losses or defaults at other financial institutions. Although the governments of several major countries have taken extensive emergency measures to stabilize the global financial markets, there is no guarantee that such measures will be effective in correcting the current financial meltdown.

In Japan, exports have been adversely affected by both economic recessions in the United States and Europe as well as a stronger yen exchange rate vis-à-vis the dollar and euro. Concerns about Japan’s future economic growth, share price volatility, exchange rate volatility, rising unemployment, declining real estate prices and lower corporate earnings have added to the pressures on the Japanese economy. As a result of these pressures, there has been a rise in delinquencies and default rates, as well as a general lack of confidence in the financial markets amid fears of a prolonged recession in Japan.

Despite our attempts to minimize our exposure to these Japanese and global problems through the development and implementation of risk management procedures, further deterioration of Japanese and global financial and capital markets and economic conditions could continue to adversely affect our business activities, financial condition and results of operations.

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

Our primary sources of funds from financing activities are: borrowings from banks and other institutional lenders, funding from capital markets (such as offerings of commercial paper, medium-term notes, straight bonds, convertible bonds, asset-backed securities and other debt securities) and deposits. Such sources include a significant amount of short-term debt such as commercial paper and short-term borrowings from various institutional lenders, and long-term debt maturing in the current fiscal year ending March 31, 2010. The dysfunction of, and turmoil in, the financial markets have led to a severe reduction in available credit due to increased concerns about, among other things, rising borrower default rates.

The reduction of available credit has increased the risks to our financial liquidity. These risks have increased due to a variety of factors including our ability to raise new funds in the market or renew existing funding sources is uncertain; we are exposed to increased funding costs; we may be more subject to volatility in the credit markets; and our securities may not be attractive to investors in the capital markets. If our access to liquidity is restricted, or if we are unable to obtain our required funding at acceptable costs, we may face a liquidity shortage that significantly impairs our financial condition, or, alternatively, we may be required to substantially, or suddenly, curtail our business activities, which would significantly and adversely affect our results of operations.

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

We compete with our competitors primarily on the basis of pricing, terms and transaction structure. Other competitive factors include industry experience, client service and client 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 aggressively compete 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. Similarly, some of our competitors are larger than we are and have access to capital at a lower cost than we have and 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 or reduced profitability.

(4) Negative press coverage or rumors could affect our business activities, financial condition, results of operations or share price

Our business depends upon the confidence of customers and market participants. Negative press coverage or rumors (including on the Internet) about our activities, our industry or parties with whom we do business could harm our reputation and diminish confidence in our business. If we become aware of such negative press coverage, we typically assess the situation and take appropriate action in response. However, even if we provide appropriate and timely explanations to the press and other interested parties, there is no assurance that we can prevent an adverse effect on our reputation. If we suffer reputational damage as a result of any negative publicity, there is a chance that we will lose customers or business opportunities, which could adversely affect our results of operations and cause our share price to decline.

(5) 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. Shifts in commodity market prices, shifts in consumer demands, political instability or religious strife in any such region could adversely affect our operations.

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

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

(7) Our business activities, financial condition and results of operations may be adversely affected by unpredictable events

Our business activities, financial condition and results of operations may be adversely affected by unpredictable events or any continuing effects caused by such events. Unpredictable events include man-made events, such as accidents, war, terrorism and insurgency, and natural events, such as earthquakes, storms, tsunamis, fires and outbreaks of new strains of influenza or other infectious diseases. These events may, among other things, cause unexpectedly large market price movements or an unexpected deterioration of the economic conditions of a country. If such a sudden and unpredictable event occurs in an area where we operate, either as a single event or in combination with other unpredictable events, we may be unable to respond to such changing economic conditions in time to protect our affected business operations, and our results of operations may be adversely affected.

2. Risks 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 that adversely affect specific customers, industries or markets. Recently, the number of clients facing a deteriorating operating environment has been increasing due to restricted credit availability caused by the deterioration of the financial markets. As a result, while our charge-offs (net) have remained flat year on year, provisions for doubtful receivables and probable loan losses have been increasing. This, coupled with a deterioration of the real estate market, has caused significant increases in loans individually evaluated for impairment and provisions for doubtful receivables and probable loan losses for our installment loans to real estate-related companies. See “Item 5—Operating and Financial Review—Results of Operations—Year Ended March 31, 2009 Compared to Year Ended March 31, 2008—Details of Operating Results—Revenues, New Business Volumes and Operating Assets—Installment loans and investment securities—Asset quality of our owned installment loans” for additional details. If these trends continue, we may be required to make additional provisions in the future and our results of operations may be adversely affected.

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 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 results of operations could be adversely affected.

(2) We may suffer losses on our investment portfolio

We hold investments in debt and equity securities, funds, ships, aircraft and real estate in Japan, the United States and other regions. The market values of our investment assets are volatile and may decline substantially in the current year or future years. Furthermore, debt and equity securities classified as trading securities are measured at fair value and changes in their values have a direct influence on our income and losses. Unrealized gains and losses on debt and equity securities classified as available-for-sale securities are recorded in shareholders’ equity, net of income taxes, and are not ordinarily charged directly to income. We recognize write-downs when we determine that declines in fair value on the securities (other than trading securities) are other than temporary.

The uncertainty in the global financial and capital markets has led to significant reductions in the liquidity of securities, greater volatility, widening of credit spreads and a lack of price transparency. For further details about valuation losses on our investment securities, see “Item 5—Operating and Financial Review—Results of Operations—Year Ended March 31, 2009 Compared to Year Ended March 31, 2008—Details of Operating Results—Revenues, New Business Volumes and Operating Assets—Brokerage commissions and net gains (losses) on investment securities” and “—Expenses—Write-downs of securities”. Although we attempt to minimize risks through the development and implementation of risk management procedures, a continuation of the present adverse market conditions or further deterioration in global financial market conditions could cause us to suffer unexpected losses from declines in the fair market value of securities. We record declines in the fair market value of the securities in accordance with applicable accounting principles. However, due to a decline in liquidity, or to the absence of liquidity, our securities may only be marketable below the recorded price.

(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 management (“ALM”), fixed and variable interest rates and terms of fixed-rate assets and liabilities are not uniform among our assets and liabilities. As such, increases or decreases in market interest rates or changes in the yield curve could adversely affect our results of operations.

In addition, the value of our assets may move independently of market interest rates. Where funds procurement costs are increasing due to a significant increase in market interest rates or the perception that an increase may occur, financing leases terms and loan interest rates for new transactions may diverge from the trend in market interest rates.

Furthermore, changes in market interest rates could have an adverse effect on the credit quality 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 that our customers bear. This increased burden could adversely affect the financial condition of our customers and their ability to repay their obligations to us, possibly resulting in defaults. Alternatively, a decline in interest rates could result in increased prepayments of loans and a decrease in our assets.

We have subsidiaries and affiliates in the United States and other countries outside of Japan. Although we generally attempt to hedge foreign exchange risks that arise from these business operations through matched funding, foreign exchange contracts, currency swaps and other hedging instruments, not all of our foreign exchange risks are perfectly hedged. Similarly, any retained earnings accumulated in foreign currencies at our overseas subsidiaries are also subject to exchange risks. 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 ratings agencies and have been recently downgraded by JCR and placed on negative outlook by Moody’s, S&P, JCR and R&I. Although this has not had an adverse impact on our business operations, any further downgrades in our credit ratings could result in an increase in our interest expenses, and could have an adverse impact on our fund raising ability by: increasing costs of issuing commercial paper and corporate debt securities, decreasing investor demand for our securities, increasing our bank borrowing costs or reducing the amount of bank credit available to us. Any one of these liquidity events could limit our ability to raise capital, thereby adversely affecting our financial condition and liquidity position. In such event we would seek financing from alternative sources, including asset sales. However, alternative financing may not be adequate to meet our funding needs if adverse conditions arise. As a result, our business activities, financial condition and results of operations may be adversely affected.

(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. Alternatively, our ability to enter into derivative transactions may be adversely affected if our credit ratings are downgraded. We may also suffer losses from trading activities. As a result, our financial condition and results of operations could be adversely affected. For a discussion of derivative financial instruments and hedging, see Note 27 in “Item 18. Financial Statements.”

3. Risks related to our business overall

(1) We face various operational risks

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

Our management attempts to control operational risk and maintain it at a level that 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 main 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 business activities, financial condition and results of operations

Our business and employees in Japan are subject to laws, as well as regulatory oversight of government authorities who implement those laws, relating to the various fields in which we operate. This includes laws and regulations applicable to financial institutions such as the Moneylending Business Law, the Installment Selling Control Law, the Insurance Business Law, the Banking Law, the Trust Business Law, the Real Estate Trading Business Law and the Building Standards Law, as well as general laws applicable to our business activities such as the Company Law, the Financial Instruments and Exchange Law, the Antimonopoly Act and the Personal Information Protection Act.

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. For example, in addition to being subject to U.S. securities laws, we are also prohibited or otherwise restricted by U.S. law from entering into any transactions with countries listed as state sponsors of terrorism. 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 not function adequately. 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 activities, 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 the investigation becomes publicly known, our reputation may be harmed and our business activities may be adversely affected.

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

We utilize 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 also offer data center services for our customers. System shutdowns, malfunctions or failures, the mishandling of data or fraudulent acts by employees or third parties, or infection by a computer virus could have adverse effects on our operations, for example by causing delay in the receipt and payment of funds, the leak or destruction of confidential information or personal information, the 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 could be adversely affected. Alternatively, the liquidity of customers who rely on us for financing or payment or who utilize our data center services could be adversely affected, and our relationships with such customers could also be adversely affected. The occurrence of any of these or any other disruptions could result in our being 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 from terrorism. Since information systems serve an increasingly important role in business activities, there is an increasing risk of stoppage of the network or information systems due to disaster or terrorism. 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 financial 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 current senior management could have an adverse effect on our business activities, financial condition and results of operations.

(3) Changes in the legal or financial stability of, or cultural differences with, any counterparties with whom we enter into joint ventures or alliances could adversely affect our results of operations

We operate joint ventures and enter into alliances with foreign and domestic third parties, and the success of these operations is often dependent upon the financial and legal stability of these third parties or counterparties. If one of the counterparties with whom we operate a joint venture or have a business alliance suffers a decline in its financial condition for any reason, or is subject to instability because of a change of the laws governing its operations after we have invested in the joint venture or the business alliance and begun operations, we may not be able to successfully operate the joint venture or alliance, may be required to pay in additional capital, or may be required to close the operations altogether. Likewise, significant differences in corporate culture between us and these partners may come to light, and may result in significant changes to the assumptions that we made when we decided to begin the operations. If our alliance counterparties are unable to perform as expected, or if any unexpected variations from the assumptions we made on entering into alliances occur, then we may not be able to continue those alliances successfully. Our inability to successfully operate joint ventures or alliances may adversely affect our reputation and results of operations.

(4) If our independent registered public accounting firm finds that our internal controls over financial reporting are insufficient, investors may lose confidence in the reliability of our financial statements, adversely affecting 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 each SEC-registered foreign private issuer to include in its Annual Report on Form 20-F a report containing 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 provide an attestation report on the effectiveness of the company’s internal controls over financial reporting. These requirements are reflected in our Annual Reports filed on Form 20-F for the fiscal years ended March 31, 2007 and thereafter.

Similarly, the Financial Instruments and Exchange Act was enacted in June 2006 in Japan. Article 24-4-4 thereof requires that a listed company shall submit its internal control report with an audit certificate issued by an independent registered public accounting firm together with its annual securities report. These requirements are applicable to annual securities reports issued for the fiscal year ended March 31, 2009. Pursuant to the provisions of the “Cabinet Office Ordinance on the System for Ensuring Appropriateness of Statements on Finance and Accounting and Other Information” (2007, No. 62) (the “Cabinet Office Ordinance”), our internal control reports required under the Financial Instruments and Exchange Act are prepared in conformity with the requirements under U.S. accounting standards for the terms, form and preparation method of internal control reports and by including additional information regarding significant differences between the reports prepared in accordance with Japanese accounting standards.

Although we have established and assessed our internal controls over financial reporting in a manner intended to ensure compliance with the requirements of various laws and regulations, in future periods our independent registered public accounting firm may identify material weaknesses in our internal controls over financial reporting and may issue a report that our internal controls over financial reporting are ineffective. These possible outcomes could have a negative impact on our share price, reputation, business activities, financial condition or results of operations due to a loss of investor confidence in the reliability of our financial statements.

(5) Our risk management may not be effective

We continuously seek to improve our risk management function. However, due to the rapid expansion of our business or significant changes in the business environment, our risk management may not be effective in some cases. We operate in a wide variety of business and geographic areas and if we are unable to effectively manage new or existing risks, our financial condition and results of operations could be adversely affected.

4. Risks related to specific businesses

(1) Our real estate-related operations expose us to various risks

The main areas of our real estate-related operations are real estate-related loans and real estate business. Real estate-related loans are comprised of loans to domestic real estate companies or construction companies, nonrecourse loans for which cash flow from real estate is the main source of repayment, and underwriting specified bonds that are issued by special purpose entities and secured by real estate. Our real estate business comprises the development and lease of office buildings, rental housing, commercial facilities and logistics warehouses; the construction and sale of condominiums; 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).

Due to the global financial crisis, the real estate markets in Japan and overseas have declined significantly, resulting in a dramatic deterioration of the funding environment for real estate purchase and development. Accordingly, the business conditions for our borrowers in the real estate industry, including real estate companies as well as construction companies, have deteriorated significantly, and the value of the real estate collateral supporting the loans that we have made is decreasing. These trends have led to increases in our provisions for doubtful receivables and probable loan losses as well as in our credit costs. See “Provision for doubtful receivables and probable loan losses” of Item 5 for further details. In addition, in our real estate business, profit on sales of lease properties is decreasing, and we have incurred valuation losses on property for sale in our condominium business. If the real estate market continues to deteriorate in the future, we may write down further the value of our properties (including real estate projects in which we have an interest), reschedule due dates of particular loans, purchase the senior portion of debt to preserve subordinated debt held by us, or make other additional investments to protect the viability of a project. Despite any additional investments, loans or other efforts that we make to maintain the viability of our properties and development projects, those efforts may fail and our investments may be lost. Any losses that we suffer due to additional write-downs of property values, losses on additional investments, or losses related to borrowers whose debts we have previously rescheduled or modified may be significant, and could have an adverse effect on our financial condition and results of operations.

Changes of initial real estate development project plans may be required as a result of discussions with neighboring residents about the impact of such plans on the neighborhood, even though all the governmental approvals and licenses required for such projects have been previously obtained. Any such change in our plans may also result in an increased likelihood that sales will become difficult due to lowered credibility of the real estate market, the resulting shifts in consumer’s company choice, or changes in results of operations and financial conditions of, or misconduct of the counterparties to, joint ventures. These factors could adversely affect our results of operations from our real estate business. Furthermore, since the results of operations of real estate-related companies to which we make loans may be adversely affected in the same way, debt collection from such borrowers. The liquidity of properties held by us as collateral may decline, which could also make debt collection difficult.

When we commence a building construction project, we try to obtain indemnity against any breach of contract or defect of property from the contractor. Also, when we purchase a property, we try to obtain indemnity from the seller to cover losses and expenses caused by any defects of geological condition, building structure or material in relation to such property. If construction work is postponed or cancelled due to the 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 indemnity provided is insufficient due to a deterioration of the indemnitor’s financial condition, we may be required to indemnify the tenant or purchaser and thereby incur losses. Even if we do not have to indemnify the tenant or purchaser, we may incur additional costs, including additional construction costs, to complete or operate property causing our expenditures to exceed budget. In addition, even if we do not incur financial loss, property defects may adversely affect our reputation due to our involvement as the seller, owner or original developer.

We may also have latent liabilities for soil contamination cleanup costs related to certain of our real estate acquisitions. Before the Soil Contamination Measures Law came into effect in February 2003, we did not, at the time of acquisition, investigate land (including land provided as loan collateral) 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 the land is polluted and it is necessary to take countermeasures under the Soil Contamination Measures Law, this could adversely affect the value of the land or the amounts conversable 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, our investigation may have failed to identify risk and 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 our expenses may increase.

We generally carry comprehensive property and casualty insurance covering our real estate investments acquired as part of our real estate business, with insured limits that we believe are adequate and appropriate in light of anticipated losses. However, certain types of losses, such as losses caused by wars, acts of terrorism, willful acts or gross negligence, 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 premiums are relatively expensive.

In the event that our real estate investments suffer uninsured losses, our investment balances in and revenues from such investments could be adversely affected. In addition, in the event that a building or real estate development project in which we have invested is destroyed or otherwise rendered unusable, we would likely remain liable for indebtedness and other financial obligations relating to the relevant property.

(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 have proactively expanded the range of our product sales and services beyond our traditional businesses, we are exposed to new and increasingly complex risks, some or all of which we may be unable to control, and we may incur substantial losses. In addition, our efforts to offer new services and products may not achieve the expected results if business opportunities do not increase as expected or if competitive pressures undermine the profitability of the available opportunities. Restructuring of, or withdrawal from, businesses in which we engage could harm our reputation and adversely affect our financial condition and results of operations.

We cannot guarantee that the price we pay for acquisitions will be fair and appropriate. If the results of operations of acquired companies are lower than what we expected at the times we made the acquisitions, our acquisitions could result in large future write-downs of goodwill and other assets.

In recent years, the contribution from consolidated subsidiaries and equity method affiliates to our consolidated results of operations has increased and has been an important component of our income. There can be no assurance that this contribution will be maintained. While we will continue to review and selectively pursue investment opportunities, there can be no assurance that we will continue to identify attractive opportunities, or that investments will be as profitable as we originally expect. Our subsidiaries and affiliates have a wide range of business operations, including operations that are very different from financial services, our core business. Failure to manage investee 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 investee at the time or price we initially expected. We may also need to invest additional capital in some investee companies if their financial condition deteriorates. We may lose key personnel in investee companies if such personnel are not satisfied with our management.

In the event that any subsidiary or affiliate to which we transfer our personnel to serve as directors or officers is implicated in a problem of significant public concern, our reputation may be adversely affected irrespective of whether such persons perform their obligations appropriately.

(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 estimate the residual value at the time of contract, and we may suffer losses if we are unable to sell or re-lease the equipment at the end of the leasing period for the residual value that we estimated at the beginning of the lease. This risk is particularly significant for operating leases. 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; however, we may need to recognize additional valuation losses if our estimate differs from actual trends in equipment valuation and the secondhand market.

(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 inappropriate industry business practices. In 2005, inappropriate sales activity was a serious problem in the telephone equipment leasing industry, and we received an increased number of customer claims and inquiries. In response to the industry trend, the Ministry of Economy, Trade and Industry amended the "Act on Specified Commercial Transactions" in 2005 and has provided guidance to firms in the related industries on compliance measures. If the same problem recurs, leasing contracts may be cancelled before maturity, adversely affecting our business performance, and our reputation may suffer. The measures that we have taken or may take in the future to resolve and address these problems may cause leasing business costs to increase and leasing transactions to decline.

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

We provide credit to companies in entertainment-related industries, such as pachinko halls operators, primarily through direct financing leases and installment loans. Even though we have accumulated credit know-how from past experience and obtain collateral that we consider adequate after thorough examination of the risks presented by these industries, our business activities, financial condition and 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 credit of our customers in these industries.

(6) Changes in the Moneylending Business Law may adversely affect our financial condition and results of operations

We provide consumer loans through ORIX Credit Corporation. The consumer lending industry has been shrinking because of the uncertain business environment that surrounds it due to the increased risk of claims for refunds of “gray zone” interest (that is the interest on loans in excess of the maximum rate prescribed by the Interest Rate Restriction Law, which is between 15% to 20% per annum, and the maximum rate of 29.2% permitted under the Capital Subscription Law) as a result of the strengthening of various related legal restrictions. Regulatory changes include a reduction in the maximum chargeable interest rates implemented by revisions to the Moneylending Business Law as well as the expansion of self-regulation by moneylending companies, include the introduction of aggregate borrowing limits, both of which will become effective by June 2010. The aggregate borrowing limits for consumer lending will in principle prohibit making a new loan to a borrower if the amount, when aggregated with the borrower’s other outstanding debts, would exceed one-third of the borrower’s annual income. Since ORIX Credit Corporation has generally not charged gray zone interest on its loans, the reduction of the maximum chargeable interest rate under the Moneylending Law does not directly affect it. However, the aggregate borrowing limits may result in a decline in our outstanding loan balance as we reduce loans to consumers to refrain from lending beyond their aggregate borrowing limits. Additionally, ORIX Credit’s credit costs may increase if the decreased borrowing limits constrict cash flows of our borrowers, thereby constraining their ability to pay their debts as they come due. Although we announced plans to transform ORIX Credit Corporation into a joint venture with Sumitomo Mitsui Banking Corporation to better compete in light of industry changes, the trend of the consumer loan industry as a whole may adversely affect our financial condition or results of operations.

(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 through ORIX Environmental Resources Management Corporation in June 2006 as a Private Finance Initiative, or PFI, under contract with Saitama prefecture in Yorii-machi, Saitama. In addition, we acquired Kanematsu Environmental Corporation (now Funabashi Environmental Corporation) in March 2008 to develop an industrial waste disposal business mainly in Funabashi, Chiba. In order to minimize the risk of emitting environmental pollutants, ORIX Environmental Resources Management Corporation utilizes advanced waste disposal techniques. ORIX Environmental Resources Management Corporation has contracted with the waste disposal specialist firm that constructed the facility to serve as operator of the facility. The Funabashi Environmental Corporation has established a facility that minimizes the risk of emitting environmental pollutants. Although we try to reduce the risks related to operating our industrial waste disposal business, environmental pollution could occur due to an operational error or defect in the disposal facility. To protect against a variety of such accident risks, ORIX Environmental Resources Management Corporation has ensured that the relevant operator bears responsibility for the operation and maintenance of the facility under its operating agreement and responsibility for defects in the facility under the design and construction contracts.

However, in the event that the financial condition of the operator has deteriorated to the point that it cannot perform its contractual obligations or indemnify us for losses, we will be required to bear such losses. Furthermore, 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 such an accident occurs, we will be required to incur loss. Even if we do not incur any direct financial loss, our reputation 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 our subsidiary Kochi Medical PFI Corporation. 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. Even if there is no pecuniary liability, our reputation could be adversely affected.

We rent medical instruments to customers. We contract for the inspection of such medical instruments with professionals designated by the manufacturers. The manufactures are responsible for any injuries or damages caused by defects in such medical instruments. However, as a lessor, we also have potential obligations for such defects. Further, even if there is no pecuniary liability, our reputation could be adversely affected by product defects.

We provide housing and elderly care services to senior citizens, including through the operation of at-home nursing care and nursing home facilities. 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 results of operations could be adversely affected.

(9) If our advisory services and consulting services that 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, including through our subsidiaries ORIX M&A Solutions Corporation and Houlihan Lokey Howard & Zukin. 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 or real estate that it purchases for asset management purposes decreases. ORIX Life Insurance is subject to strict regulatory oversight, which includes the maintenance of certain specified capital requirements. If ORIX Life Insurance suffers valuation or other losses that affect its ability to maintain its regulatory capital requirements, we may be required to provide financial support through capital contributions. In addition, if ORIX Life Insurance fails to conduct asset liability management, or ALM, to appropriately manage risks and returns on investment assets and underwriting risks on insurance policy benefits, its financial condition and results of operations may suffer.

ORIX Life Insurance is required to make 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 premiums and policy reserves within the industry. Because a number of life insurers have become insolvent since 1998, the PPC’s financial resources have been depleted by financial support provided to those companies. If there are further bankruptcies of life insurers, other members of the PPC, including ORIX Life Insurance, may be required to make additional contributions 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, business activities, financial condition and results of operations 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 that 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 exposes us to market and credit risks

We operate a ship brokerage business in which we simultaneously place orders for new ships with shipbuilders and enter into purchase agreements with our customers who purchase the ships for use upon completion. As the process of shipbuilding takes several years from the placement of an order to delivery of the ship, if a purchasing customer defaults under its purchase agreement due to a decline in market conditions or deterioration of its cash flow, we are not extinguished from our obligation to purchase the ship upon completion. Also, if a shipbuilder becomes unable to complete and deliver a ship for financing or other reasons, we will be obliged to repay the deposit received from the customer regardless of whether or not the advance was repaid by the shipbuilder. Any of these above events may adversely affect our results of operation.

5. Risks related to holding or trading our Shares and ADRs

(1) Dispositions of 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 Shares, particularly dispositions of large numbers of Shares by major shareholders, may adversely affect market prices for the Shares.

For information on major shareholders, 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 our Shares are listed in Japan, has certain standards for maintaining the listing of shares. If we fail to meet the listing standards, the listed section of the Shares may change from the more prestigious section 1 to section 2, or the Share may be delisted. In general, the liquidity of shares on section 2 is lower and share price volatility is higher than on section 1. If the Shares are moved 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 incorporated elsewhere. 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 Japan. For a detailed discussion of the relevant provisions of 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 a passive foreign investment company

We expect to be 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 recharacterization 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 interest charges for a deemed deferral benefit. See "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. Each unit of the Shares has one vote. A holder who owns Shares other than in multiples of 10, will own less than a whole unit (i.e., for the portion constituting fewer than 10 Shares.) 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, a holder of Shares constituting less than a unit has the right to require ORIX to purchase its Shares and the right to require ORIX to sell it additional Shares to create a whole unit of 10 Shares. However, a holder of ADRs is not permitted to withdraw underlying Shares representing less than one unit, which is equivalent to 20 ADSs, and, as a practical matter, is 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 dollar 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 a nominee 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 Building, 4-1-23 Shiba, Minato-ku, Tokyo 108-0014, Japan, and our phone number is: +81 3 5419 5000. Our general contact URL is https://ssl.orix-form.jp/ir/inquiry_e/ 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 900, 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 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 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 Stock Exchange and the Osaka Securities Exchange. In September 1998, ORIX listed on the New York Stock Exchange, or NYSE, with the ticker symbol “IX.” ORIX was listed on the Nagoya Stock Exchange from February 1973 to 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 expanding and diversifying our range of products and services to include ship and aircraft leasing along with real estate collateralized loans. Furthermore, in 1972, we established Orient Leasing Interior (now ORIX Alpha), which concentrated on leasing furnishings and fixtures to retailers, hotels, restaurants and other users. We subsequently set up a number of specialized leasing companies to tap promising new markets, including ORIX Auto Leasing Corporation (now ORIX Auto) in 1973, and Orient Instrument Rentals (now ORIX Rentec) in 1976. We established Family Consumer Credit (now ORIX Credit) in 1979, with the aim of entering the consumer finance sector.

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