Operating and Financial Review and Prospects— Results of Operations— Direct Financing Leases” and “—Installment Loans and Investment Securities.”

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

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

(4) Basic earnings per share and Diluted earnings per share have been retroactively adjusted for a stock split.

In certain parts of this annual report, we have translated Japanese yen amounts into U.S. dollars for the convenience of readers. The rate that we used for translations was ¥120.20 = US$1.00, which was the approximate exchange rate in Japan on March 31, 2003 using the telegraphic transfer rate of the Bank of Tokyo-Mitsubishi, Ltd. The following table provides the noon buying rates for Japanese yen expressed in Japanese yen per US$1.00 during the periods indicated. No representation is made that the Japanese yen or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Japanese yen, as the case may be, at any particular rate or at all.

	Year Ended March 31,				
	1999	2000	2001	2002	2003
	(Yen per U.S. dollar)				
High	¥147.14	¥124.45	¥125.54	¥134.77	¥133.40
Low	108.83	101.53	104.19	115.89	115.71
Average (of noon buying rates available on the last day of each month during the period)	128.10	110.02	111.65	125.64	121.10
At period-end	118.43	102.73	125.54	132.70	118.07

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

	High	Low
2003		
January	¥120.18	¥117.80
February	121.30	117.14
March	121.42	116.47
April	120.55	118.25
May	119.50	115.94
June	119.87	117.46

Risk Factors

Our business may continue to be adversely affected by the recession in Japan

Our business may continue to be adversely affected by the recession in Japan. The recession may affect our new business origination volume, the credit quality of our assets, the valuation of our long-lived assets and margins on operating assets.

The Japanese economy has shown slow growth or negative growth for most of the last decade. Although from 1995 to early 1997 the economy recovered to some extent, since 1997 recessionary conditions have prevailed.

As a result of adverse economic conditions in Japan, we may be unable to originate more leases and loans and our non-performing assets may increase. Our allowance for doubtful receivables on direct financing leases and probable loan losses may prove to be inadequate. Adverse economic conditions may prevent our customers from meeting their financial obligations. The value of collateral securing our loans and the value of equipment that we lease to customers may decline. Our ability to re-lease or remarket equipment on favorable terms may also be limited by adverse economic conditions in Japan. In addition, we may not be able to sell the residential condominiums or other properties that we build, or we may be forced to sell the properties below cost at a loss.

Continued deflation in Japan may adversely affect the value of our long-lived assets

In the fiscal year ended March 31, 2003 we recorded write-downs of long-lived assets totaling ¥50,682 million for real estate assets including golf courses, rental condominiums, office buildings, hotels, corporate dormitories and other properties in Japan. Based on segment information, we had a total of ¥635,233 million of long-lived assets in Japan and overseas as of March 31, 2003. Deflation or other adverse conditions in Japan or overseas may affect the value of long-lived assets we own and we may be required to write-down additional assets if it is unlikely that we are able to recover the carrying value of such assets. Any such event may have an adverse effect on our results of operations and financial condition.

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

At March 31, 2003, we had loans outstanding of ¥327,697 million to real estate-related companies and construction companies. Of that amount, we maintained an allowance for probable loan losses of ¥20,394 million. Our allowance for doubtful receivables on direct financing leases and probable loan losses may be inadequate to cover credit losses on our loans to real estate-related companies and construction companies.

Japanese real estate-related companies and construction companies have been severely affected by the collapse of the bubble economy in Japan. Because of the large declines in real estate prices, these companies have suffered enormous losses on investments in real estate. Some of these losses have been recognized in the financial statements of these companies and some have not. Companies in these sectors are suffering from other difficult business conditions resulting from the collapse of the bubble economy, including the lack of liquidity in the real estate market and a decrease in major development projects. Therefore, these companies may have difficulty paying amounts due on loans. In addition, the value of real estate collateral securing our loans from real estate-related companies and construction companies may further decline. This may prevent us from fully recovering our loans to those companies if they default on their obligations.

Our business may continue to be adversely affected by adverse economic conditions in the United States

A substantial portion of our revenue is derived from our operations in the United States, and we have significant investments in securities of U.S. issuers, and loans and leases to U.S. companies. The economic conditions in the United States have remained uncertain during the last fiscal year. Our operations have been and may continue to be adversely affected by deteriorated economic conditions in the United States. Adverse effects on our U.S. operations might include:

- an increase in provisions for doubtful receivables and probable loan losses if the financial condition of our U.S. customers deteriorates;

- an increase in write-downs of securities and other investments if the market values of securities continue to decline and such declines are not expected to be temporary or as a consequence of the insolvency of issuers; and
- losses on sale of or unrealized loss on real estate holdings if the value of our real estate in the United States declines significantly.

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

As of March 31, 2003, we had approximately ¥120 billion of bonds, installment loans, operating leases and investments related to the airline industry. Due to the deterioration of operating conditions of the airline industry, we made provisions for doubtful receivables and probable loan losses of approximately ¥5.3 billion and recorded approximately ¥900 million in write-downs of securities in the fiscal year ended March 31, 2003. The airline industry continues to experience financial difficulties worldwide, particularly in North America. A number of airlines have declared bankruptcy, and there may be additional bankruptcies in the near future. Our results of operations and financial condition have been adversely affected and may continue to be adversely affected by the adverse conditions in the airline industry.

Most of our exposure to the airline industry is collateralized, mainly by aircraft. If the value of the collateral declines, we may record additional losses. In addition, since our exposure to the airline industry is not fully collateralized, we are also exposed to the general credit risk of airlines.

Adverse developments affecting other Asian economies may continue to adversely affect our business

The economies of Hong Kong, Indonesia, Malaysia, Korea and other Asian countries where we operate have experienced problems since the second half of 1997. In 2003, there has also been an outbreak of Severe Acute Respiratory Syndrome (“SARS”) which may further exacerbate the economic conditions of these Asian countries. We may suffer losses on investments in these countries and poor operating results on our businesses in these countries if these countries experience

- declines in the value of the local currency,
- declines in gross domestic product,
- declines in corporate earnings,
- political turmoil, or
- stock market volatility.

These and other factors could result in

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

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

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

Significant increases in market interest rates, or the perception that an increase may occur, could adversely affect our ability to originate new transactions, including direct financing leases and loans, and our ability to grow.

On the other hand, a decrease in interest rates could result in faster prepayments of loans. In addition, changes in market interest rates could affect the interest income that we receive on interest-earning assets differently than the interest rates we pay on interest-bearing liabilities. This could increase our interest expense more than our revenues. An increase in market interest rates could make some of our floating-rate loan customers default on our loans to them.

Not all of our assets and liabilities are matched by currency. As a consequence, rapid or significant changes in currency exchange rates could have an adverse impact on our assets and our financial condition and results of operations.

We may suffer losses on our investment portfolio

We hold large investments in debt and equity securities, mainly in Japan and the United States. As of March 31, 2003, the carrying amount of our investments in securities was ¥677,435 million. We may suffer losses on these investments because of changes in market prices, defaults or other reasons. 5.3% of our investment in securities as of March 31, 2003 was marketable equity securities, mainly common stock of Japanese listed companies. The market values of these equity securities are volatile and have declined substantially in recent years. 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 directly charged to income. However, declines in market value on available-for-sale securities and held-to-maturity securities are charged to income if we believe that these declines are other than temporary. We recorded ¥19,742 million in charges of this kind in the year ended March 31, 2002 and ¥14,325 million in charges of this kind in the year ended March 31, 2003. We may have to record more charges of this kind in the future.

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

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

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

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

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

- the nature and characteristics of obligors,
- economic conditions and trends,
- charge-off experience,
- delinquencies,
- future cash flows, and
- the value of underlying collateral and guarantees.

We cannot be sure that our allowance for doubtful receivables on direct financing leases and probable loan losses will be adequate over time to cover credit losses in these portfolios. This allowance may turn out to be inadequate if adverse changes in the Japanese economy or other economies in which we compete or discrete events adversely affect specific customers, industries or markets. If our allowance for doubtful receivables on direct financing leases and probable loan losses is insufficient to cover these changes or events, we could be adversely affected.

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

We compete primarily on the basis of pricing, terms and transaction structure. Other important competitive factors include industry experience, client service and relationships. From time to time, our competitors seek to compete aggressively on the basis of pricing and terms and we may lose market share if we are unwilling to match our competitors because we want to maintain our interest margins. Because 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 profitable interest margins while still reducing prices. To the extent that we match our competitors’ pricing or terms, we may experience lower interest margins.

Our access to liquidity and capital may be restricted by economic conditions or potential credit rating downgrades

Our primary sources of funds are cash flows from operations, borrowings from banks and other institutional lenders, and funding from the capital markets, such as offerings of commercial paper, medium-term notes, straight bonds, asset-backed securitizations and other debt securities. A downgrade in our credit ratings could result in an increase in our interest expense and could have an adverse impact on our ability to access the commercial paper market or the public and private debt markets, which could have an adverse effect on our financial position and liquidity. Even if we are unable to access these markets on acceptable terms, we have access to other sources of liquidity, including bank borrowings, cash flows from our operations and sales of our assets. We cannot be sure, however, that these other sources will be adequate if our credit ratings are downgraded or other adverse conditions arise.

We continue to rely significantly on short-term funding from Japanese commercial banks. Only a portion of this funding is provided under committed facilities. We also rely on the capital markets as a funding source, including the commercial paper and corporate bond markets. We are taking steps to reduce refinancing risks by diversifying our funding sources and establishing committed credit facilities from Japanese banks and foreign banks. Despite these efforts, committed credit facilities and loans are subject to financial and other covenants and conditions to drawdown, including minimum net worth requirements, and the risk that we will be unable to roll over other short-term funding remains.

Efforts by other companies to reduce their cross-shareholdings may adversely affect market prices for the Shares

Many companies in Japan have announced plans to reduce their cross-shareholdings in other companies. Our own dispositions of other companies’ shares could encourage those companies to dispose of Shares. Dispositions by other companies of Shares may adversely affect market prices for the Shares.

We expect to be treated as a passive foreign investment company

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

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

100 shares constitute one “unit.” Each unit of our shares has one vote. A holder who owns fewer than 100 shares, or ADRs evidencing fewer than 200 ADSs, will own less than a whole unit. The Japanese Commercial Code restricts the rights of a shareholder who holds shares of less than a whole unit. In general, holders of shares constituting less than a unit do not have the right to vote. Transfers of shares constituting less than one unit are significantly limited. Under the unit share system, holders of shares constituting less than a unit have the right to require us to purchase their shares and the right to require us to sell them additional shares to create a whole unit of 100 shares. However, holders of ADRs are unable to withdraw underlying shares representing less than one unit. Therefore, as a practical matter, they cannot require us to purchase these underlying shares. As a result, holders of ADRs with shares in lots of less than one unit may not have access to the Japanese markets through the withdrawal mechanism to sell their shares. The unit share system does not affect the transfer of ADSs, which may be transferred in lots of any size.

Foreign Exchange Fluctuations May Affect the Value of the ADSs and Dividends

Market prices for the ADNs or ADSs may fall if the value of the yen declines against the U.S. dollar. In addition, the amount of principal, interest and other payments made to holders of ADNs or cash dividends and other cash payments made to holders of ADSs would be reduced if the value of the yen declines against the U.S. dollar.

Item 4. Information on the Company

General

ORIX Corporation is a corporation (*kabushiki kaisha*) formed under Japanese law. Our principal place of business is at 3-22-8 Shiba, Minato-ku, Tokyo 105-8683, 813-5419-5000. E-mail: koho@orix.co.jp; URL: www.orix.co.jp

Corporate History

ORIX Corporation was established on April 17, 1964 in Osaka, Japan as Orient Leasing Co., Ltd. by three trading companies and five banks that include Nichimen Corporation, Nissho and Iwai (presently Nissho Iwai Corporation, which is part of the Nissho Iwai-Nichimen Holdings Corporation), the Sanwa Bank (presently UFJ Holdings, Inc.), Toyo Trust & Banking (presently UFJ Trust and Bank Limited), the Industrial Bank of Japan and Nippon Kangyo Bank (presently Mizuho Bank, Ltd., Mizuho Holdings, Inc.), and the Bank of Kobe (presently Sumitomo Mitsui Banking Corporation). While these companies remain business partners, they now hold only a limited number of ORIX’s Shares.

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

It was also during this time that our marketing strategy shifted from a focus on using the established networks of the trading companies and other initial shareholders, to one that concentrated on independent marketing as the number of 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, our shares have been listed on the first sections of the Tokyo and Nagoya Stock Exchanges and the Osaka Securities Exchange.