

ORIX CORP  
Form 20-F  
July 17, 2007  
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended March 31, 2007  
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from            to             
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report  
Commission file number: 001-14856

## ORIX KABUSHIKI KAISHA

*(Exact name of Registrant as specified in its charter)*

ORIX CORPORATION

*(Translation of Registrant's name into English)*

Japan

*(Jurisdiction of incorporation or organization)*

Mita NN Bldg., 4-1-23 Shiba, Minato-ku Tokyo 108-0014, Japan

*(Address of principal executive offices)*

Securities registered or to be registered pursuant to Section 12(b) of the Act:

	Title of each class	Name of each exchange on which registered
(1)	Common stock without par value, or the Shares	New York Stock Exchange*

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(2) American depository shares, or the ADSs, each of which represents one-half of one Share New York Stock Exchange  
**Securities registered or to be registered pursuant to Section 12(g) of the Act: None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None**

**Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.**

As of March 31, 2007, 91,518,194 Shares were outstanding, including Shares that were represented by 3,118,036 ADSs outstanding as of March 31, 2007.

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note: Checking the box above will not relieve any Registrant required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS.)

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

\*Not for trading, but only for technical purposes in connection with the registration of the ADSs.

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**CERTAIN DEFINED TERMS, CONVENTIONS AND  
PRESENTATION OF FINANCIAL INFORMATION**

As used in this annual report, unless the context otherwise requires, **Company** and **ORIX** refer to ORIX Corporation and ORIX Group, **we**, **us**, **our** and similar terms refer to ORIX Corporation and its subsidiaries.

In this annual report, **subsidiary** and **subsidiaries** refer to consolidated subsidiaries of ORIX, companies in which ORIX owns more than 50% of the outstanding voting stock and exercises effective control over the companies' operations, and **affiliate** and **affiliates** refer to all of our affiliates accounted for by the equity method, companies in which ORIX has the ability to exercise significant influence over their operations by way of 20-50% ownership of the outstanding voting stock or other means.

The consolidated financial statements of ORIX have been prepared in accordance with accounting principles generally accepted in the United States of America, or US GAAP. Unless otherwise stated or the context otherwise requires, all amounts in such financial statements are expressed in Japanese yen.

References in this annual report to **yen** or **¥** are to Japanese yen and references to **US\$, \$** or **dollars** are to United States dollars.

Certain monetary amounts and percentage data included in this annual report have been subject to rounding adjustments for the convenience of the reader. Accordingly, figures shown as totals in certain tables may not be equal to the arithmetic sums of the figures which precede them.

The **Company's** fiscal year ends on March 31. The fiscal year ended March 31, 2007 is referred to throughout this annual report as **fiscal 2007** or the **2007 fiscal year**, and other fiscal years are referred to in a corresponding manner. References to years not specified as being fiscal years are to calendar years.

For certain entities where we hold majority voting interests but minority shareholders have substantive participation rights to decisions that occur as part of the ordinary course of the business, the equity method is applied pursuant to EITF96-16 (Investor's accounting for an investee when the investor has a majority of the voting interest but a minority shareholder or shareholders have certain approval or veto rights).

**FORWARD-LOOKING STATEMENTS**

This annual report contains statements that constitute **forward-looking statements** within the meaning of Section 21E of the Securities Exchange Act of 1934. When included in this annual report, the words, **will**, **should**, **expects**, **intends**, **anticipates**, **estimates** and similar expressions, others, identify forward-looking statements. Such statements, which include, but are not limited to, statements contained in **Item 3. Key Information**, **Risk Factors**, **Item 5. Operating and Financial Review and Prospects** and **Item 11. Quantitative and Qualitative Disclosures About Market Risk**, inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those set forth in such statements. These forward-looking statements are made only as of the filing date of this annual report. The **Company** expressly disclaims

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any obligation or undertaking to release any update or revision to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

**Table of Contents****PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****SELECTED FINANCIAL DATA**

The following selected consolidated financial information has been derived from our consolidated financial statements as of each of the dates and for each of the periods indicated below. This information should be read in conjunction with and is qualified in its entirety by reference to our consolidated financial statements, including the notes thereto, included in this annual report, which have been audited by KPMG AZSA & Co., the Japan member firm of KPMG International, a Swiss cooperative.

	2003	2004	Year ended March 31,			2007
			2005	2006	2007	2007
	(In millions of yen and millions of dollars)					
<b>Income statement data: (1)</b>						
Total revenues	¥ 733,042	¥ 760,671	¥ 912,027	¥ 929,882	¥ 1,142,553	\$ 9,679
Total expenses	694,019	673,317	781,882	714,925	860,387	7,289
Operating income	39,023	87,354	130,145	214,957	282,166	2,390
Equity in net income of affiliates	6,203	17,924	20,043	32,080	31,946	270
Gains (losses) on sales of subsidiaries and affiliates and liquidation loss	2,002	(542)	3,347	2,732	1,962	17
Income before income taxes, minority interests in earnings of subsidiaries, discontinued operations, extraordinary gain and cumulative effect of a change in accounting principle	47,228	104,736	153,535	249,769	316,074	2,677
Income from continuing operations	26,142	52,303	83,581	149,758	184,935	1,567
Net income	30,243	54,020	91,496	166,388	196,506	1,665

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	As of March 31,					
	2003	2004	2005	2006	2007	2007
	(In millions of yen and millions of dollars except number of Shares)					
<b>Balance sheet data:</b>						
Investment in direct financing leases (2)	¥ 1,572,308	¥ 1,453,575	¥ 1,451,574	¥ 1,437,491	¥ 1,258,404	\$ 10,660
Installment loans (2)	2,288,039	2,234,940	2,386,597	2,926,036	3,490,326	29,567
Subtotal	3,860,347	3,688,515	3,838,171	4,363,527	4,748,730	40,227
Investment in operating leases	529,044	536,702	619,005	720,096	862,049	7,302
Investment in securities	677,435	551,928	589,271	682,798	875,581	7,417
Other operating assets	76,343	72,049	82,651	91,856	152,106	1,288
Operating assets (3)	5,143,169	4,849,194	5,129,098	5,858,277	6,638,466	56,234
Allowance for doubtful receivables on direct financing leases and probable loan losses	(133,146)	(128,020)	(115,250)	(97,002)	(89,508)	(758)
Other assets	921,044	903,783	1,055,105	1,481,180	1,658,229	14,047
Total assets	¥ 5,931,067	¥ 5,624,957	¥ 6,068,953	¥ 7,242,455	¥ 8,207,187	\$ 69,523
Short-term debt	¥ 1,120,434	¥ 903,916	¥ 947,871	¥ 1,336,414	¥ 1,174,391	\$ 9,948
Long-term debt	2,856,613	2,662,719	2,861,863	3,236,055	3,863,057	32,724
Common stock	52,067	52,068	73,100	88,458	98,755	836
Additional paid-in capital	70,002	70,015	91,045	106,729	119,402	1,011
Shareholders' equity	505,458	564,047	727,333	953,646	1,194,234	10,116
Number of issued Shares	84,365,914	84,366,314	87,996,090	90,289,655	91,518,194	
Number of outstanding Shares	83,693,009	83,691,007	87,388,706	89,890,579	91,233,710	
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	
<b>Key ratios (%): (4)</b>						
Return on equity, or ROE	6.00	10.10	14.17	19.80	18.30	
Return on assets, or ROA	0.49	0.93	1.56	2.50	2.54	
Shareholders' equity ratio	8.52	10.03	11.98	13.17	14.55	
Allowance/investment in direct financing leases and installment loans	3.45	3.47	3.00	2.22	1.88	
<b>Per share data and employees:</b>						
Shareholders' equity per Share	¥ 6,039.43	¥ 6,739.64	¥ 8,322.96	¥ 10,608.97	¥ 13,089.83	
Basic earnings from continuing operations per Share (5)	312.43	625.00	993.71	1,695.60	2,048.90	
Basic earnings per Share	361.44	645.52	1,087.82	1,883.89	2,177.10	
Diluted earnings per Share	340.95	601.46	1,002.18	1,790.30	2,100.93	
Cash dividends per Share	15.00	25.00	25.00	40.00	90.00	
Cash dividends per Share (6)	\$ 0.13	\$ 0.21	\$ 0.23	\$ 0.34	\$ 0.77	
Number of employees	11,833	12,481	13,734	15,067	16,662	

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- (1) As a result of the recording of income from discontinued operations based on the Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we reclassified certain items retroactively to the prior years.
- (2) The sum of assets considered more than 90 days past due and loans individually evaluated for impairment amounted to ¥205,690 million, ¥173,286 million, ¥138,699 million, ¥120,607 million and ¥134,394 million as of March 31, 2003, 2004, 2005, 2006 and 2007, respectively. These sums included: (i) investment in direct financing leases considered more than 90 days past due of ¥47,825 million, ¥36,568 million, ¥25,733 million, ¥20,494 million and ¥21,149 million as of March 31, 2003, 2004, 2005, 2006 and 2007, respectively, (ii) installment loans (excluding loans individually evaluated for impairment) considered more than 90 days past due of ¥60,587 million, ¥43,176 million, ¥26,945 million, ¥16,455 million and ¥12,656 million, as of March 31, 2003, 2004, 2005, 2006 and 2007, respectively, and (iii) installment loans individually evaluated for impairment of ¥97,278 million, ¥93,542 million, ¥86,021 million, ¥83,658 million and ¥100,589 million, as of March 31 2003, 2004, 2005, 2006 and 2007, respectively. See Item 5. Operating and Financial Review and Prospects Results of Operations Fiscal year ended March 31, 2007 compared to the fiscal year ended March 31, 2006 Details of Operating Results Revenues, New Business Volumes and Operating Assets Direct Financing Leases, and Installment Loans and Investment Securities, Fiscal year ended March 31, 2006 compared to the fiscal year ended March 31, 2005 Details of Operating Results Revenues, New Business Volumes and Operating Assets Direct Financing Leases and Installment Loans and Investment Securities.
- (3) Operating assets are defined as assets subject to regular, active sales and marketing activities including the assets shown on the balance sheet as investment in direct financing leases, installment loans, investment in operating leases, investment in securities and other operating assets. Operating assets are calculated before allowance for doubtful receivables on direct financing leases and probable loan losses.
- (4) Return on equity is the ratio of net income for the period to average shareholders' equity based on fiscal year-end balances during the period. Return on assets is the ratio of net income for the period to average total assets based on fiscal year-end balances during the period. Shareholders' equity ratio is the ratio as of the period end of shareholders' equity to total assets. Allowance/investment in direct financing leases and installment loans is the ratio as of the period end of the allowance for doubtful receivables on direct financing leases and probable loan losses to the sum of investment in direct financing leases and installment loans.
- (5) Basic earnings from continuing operations per share is the amount derived by dividing income from continuing operations by the weighted-average number of common shares outstanding based on month-end balances during the fiscal year. The term basic earnings from continuing operations per share as used throughout this annual report has the meaning described above.
- (6) The US dollar amounts represent translations of the Japanese yen amounts at the noon buying rates for Japanese yen per \$1.00 in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York in effect on the respective dividend payment dates.



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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 ¥118.05 = \$1.00, which was the approximate exchange rate in Japan on March 30, 2007 using the telegraphic transfer rate of the Bank of Tokyo-Mitsubishi, Ltd. The following table provides the noon buying rates for yen expressed in yen per \$1.00 in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York during the periods indicated. As of July 16, 2007, the noon buying rates for Japanese yen per \$1.00 in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York was ¥121.90= \$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.

	2003	Year Ended March 31,			2007
		2004	2005	2006	
(Yen per dollar)					
<b>Yen per dollar exchange rates:</b>					
High	¥ 133.40	¥ 120.55	¥ 114.30	¥ 120.93	¥ 121.81
Low	115.71	104.18	102.26	104.41	110.07
Average (of noon buying rates available on the last day of each month during the period)	121.10	112.75	107.28	113.67	116.55
At period-end	118.07	104.18	107.22	117.48	117.56

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

	High	Low
<b>2007</b>		
January	¥ 121.81	¥ 118.49
February	121.77	118.33
March	118.15	116.01
April	119.84	117.69
May	121.79	119.77
June	124.09	121.08

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**RISK FACTORS**

Investing in our securities involves risks. You should carefully consider the risks described below as well as all the other information in this annual report, including, but not limited to, our consolidated financial statements and related notes and Item 11. Quantitative and Qualitative Disclosures about Market Risk. Our business, operating results and financial condition could be 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.

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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 large investments in debt securities and equity securities, mainly in Japan and the United States. We may suffer losses on these investments because of changes in market prices, defaults or other reasons. The market values of debt and equity securities are volatile and may decline substantially in the current year or future years. We record unrealized gains and losses on debt and equity securities classified as available-for-sale securities in shareholders' equity, net of income taxes, and do not ordinarily charge these directly to income and losses, unless we believe declines in market value on available-for-sale securities and held-to-maturity securities are other than temporary. We have recorded significant losses on securities in the past and may need to record additional losses in the future.

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

Many of our business activities are subject to risks relating to changes in market interest rates and currency exchange rates in Japan and overseas.

A significant increase in market interest rates, or the perception that an increase may occur, could adversely affect the origination of new transactions, including direct financing leases and loans. An increase in market interest rates may increase the repayment burden our customers bear with respect to loans, particularly under floating interest rate loans. These burdens could adversely affect the financial condition of our customers and their ability to repay their obligations, possibly resulting in defaults on our lease transactions and loans. In addition, our funding costs, and, as a result, interest expense may increase. If the increase in the amount of interest payable by us as a result of increases in market interest rates exceeds the increase in the amount of interest received by us from interest-earning assets, our results of operations would be adversely affected.

Alternatively, a decrease in interest rates could result in faster prepayments of loans. Moreover, if the decrease in the amount of interest received by us from interest-earning assets as a result of decreases in interest rates exceeds the corresponding decrease in our funding cost, our results of operations could be adversely affected.

Not all of our assets and liabilities are matched by currency. In addition, a significant portion of our operating assets, revenues and income are located overseas, in particular the United States, or are derived from our overseas operations, 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. However, we do not enter into currency exchange hedge transactions to hedge the yen value of these amounts. 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.

### ***(5) Risks of using derivatives***

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) Operational Risk***

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

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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 many of 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 as well as general laws applicable to our business activities such as Company Law, Financial Products Trading Law, Anti Monopoly 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) Risks related to computer and other information systems***

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. 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, and the generation of errors in information used for business decision-making and risk management. In such event, our liquidity or that of the customer who relies on us for financing or payment 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 system due to disaster or terrorism is increasing. If the network or information system stops, we could experience interruption of business activity, delay in payment or sales, or substantial costs for recovery of the network or the information system.

***(iii) We may not be able to hire or retain human resources to achieve our strategic goals***

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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.

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### ***(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) Risks related to internal control over financial reporting***

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 management's assessment of the effectiveness of the company's internal control over financial reporting. These requirements have initially come into effect for our annual report on Form 20-F for the fiscal year ended 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, our independent registered public accounting firm may identify material weaknesses in our internal control over our financial reporting and may decline to attest to management's assessment, or 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, and funding from the capital markets, such as offerings of commercial paper, or CP, medium-term notes, straight bonds, asset-backed securities, and other debt securities. A failure of one or more of our major lenders, a decision by one or more of them to stop lending to us or instability in the capital markets also could have an adverse impact on our access to funding. We continue to rely significantly on short-term funding from commercial banks in Japan. We

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also rely on funding from the capital markets in the form of CP. We are taking steps to reduce refinancing risks by diversifying our funding sources and establishing committed credit facilities with banks. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Sources of Liquidity Committed Credit Facilities. Despite these efforts, committed credit facilities and loans are subject to financial and other covenants and conditions to drawdown, including minimum net worth requirements, and the risk remains that we will be unable to refinance maturing indebtedness.

### ***(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 and Europe. Economic deterioration, political instability or religious strife in any such region could adversely affect our operations.

### ***(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 business**

### ***(1) Risks of real estate-related business***

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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 a repayment resource. Real estate business is the construction and sale of condominiums and houses; the development, sale and lease of office buildings, logistics warehouses and shopping centers; the operation of hotels, corporate dormitories, training facilities, golf courses, hospitals, senior housing, and a baseball stadium; integrated facilities management and related services; and asset management services for real estate investment trusts (REITs).

In Japan and overseas, adverse changes in land prices or purchase and leasing demand may cause the condition of the real estate market to deteriorate. 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.

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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 for any reason may have the same adverse consequences.

Asbestos or inadequate earthquake resistance in buildings could adversely affect us in the event we are subject to increased responsibility caused by amendments to applicable laws and regulations, increased costs due to tightening of internal due diligence or prolonged project periods due to tightened operating processes. 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.



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We cannot guarantee that the price we pay for acquisitions will be fair and appropriate. If the achievements 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. Poor performance by or a failure of these investments will adversely affect our financial condition and results of operations. Some of these companies, include a company that builds and sells residential condominiums, an overseas life insurance company, a non-life insurance company, a logistics company and a sporting apparel manufacturing and distribution company have business operations very different from 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.

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.

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. There is a risk that 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) Risk related to telephone equipment leases***

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 our leasing contract may be cancelled before its 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) Risk related to Entertainment-related business transactions*

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

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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) Risk related to changes in the Moneylending Business Law and reduction of the maximum chargeable interest rate***

We provide credit to the consumer loan industry through installment loan transactions and other similar transactions. Moreover, ORIX Credit Corporation, or ORIX Credit, operates a consumer loan business. The business environment that surrounds this industry is very severe due to the strengthening of various related legal restrictions including restrictions on the maximum amount of loans that any borrower may make, a reduction in the maximum chargeable interest rates, an increase in the number of borrowers seeking gray zone interest refunds, revisions to the Moneylending Business Law, newly implemented administrative penalties for companies with multiple debtor problems or forcible collection acts and a deterioration of the industry's public image due to an increase in negative mass-media reports. Although we have limited exposure to gray-zone interest refunds, and monitor our internal lending and collection practices to comply with the law, the performance trend of the consumer loan industry as a whole may adversely affect our results of operations or financial condition.

### ***(7) Risks of our environment-related business***

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. To minimize the risk of emitting environmental pollutants, the center 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) Risk of our medical business and nursing care business***

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.

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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.

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) Risks of our advisory service and consulting service which we offer to 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 were insufficient and our customers suffer losses due to our insufficient services, we may have the obligation to pay for those losses.

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

ORIX Life Insurance Corporation, or ORIX Life Insurance, our wholly owned subsidiary, is exposed to risk of unpredictable increases in insurance payments for deaths and hospital benefits. 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) Risk related to legal proceedings against Korea Life Insurance Co.***

In December 2002, a consortium including ORIX purchased shares of Korea Life Insurance Co., Ltd. from Korea Deposit Insurance Corporation, or KDIC. On July 28, 2006, KDIC initiated an arbitration proceeding with the International Chamber of Commerce International Court of Arbitration, or ICC, located in New York, against the consortium, including ORIX, seeking to rescind the sale and other relief. KDIC's claims are based on certain facts regarding the bidding process, which were previously the subject of dispute in a legal proceeding in Korea to which ORIX was not a party. However, the three levels of courts in Korea, including the Supreme Court (the highest court in Korea), found that the basis for the claims had not been established.

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ORIX notified the Hanwha Group of Korea that it intends to exercise a put option to sell all of its 120,700,000 shares, representing a 17% ownership interest, in Korea Life Insurance Co., Ltd. However, the parties have not reached agreement on the terms including the sale price for exercising the put option.

ORIX filed a petition with the ICC on February 23, 2007 seeking arbitration with the Hanwha Group of Korea to resolve this matter.

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### ***(12) Risk associated with holding a professional baseball team***

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 bear in mind 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.

## **5. Risk related to holding or trading our shares**

### ***(1) Because of daily price range limitations under Japanese stock exchange rules, you may not be able to sell the Shares at a particular price on any particular trading day, or at all***

Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price formation. To prevent excessive volatility, these exchanges set daily upward and downward price fluctuation limits for each listed stock, based on the previous day's closing price. Although transactions on a given Japanese stock exchange may continue at the upward or downward price limit, if the price limit is reached on a particular trading day, no transactions on such exchange may take place outside these limits. Consequently, an investor wishing to sell Shares on a Japanese stock exchange at a price outside of the relevant daily limit may be unable to complete the sale through that exchange on that particular trading day.

Holders of our ADRs are not limited by the daily price limit set by the Japanese stock exchanges. Holders of the Shares who are unable to sell those Shares on a Japanese stock exchange because an upward or downward price limit for the Shares has been reached preventing further trades outside of the permitted ranges may be negatively affected by trading that occurs in our ADRs.

### ***(2) 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, the investors outside Japan may reduce their investments in Japanese stocks. A large portion of our shareholders is comprised of investors outside Japan, and a reduction in Japanese stock investment by such investors may adversely affect market prices of our Shares.

### ***(3) Change of listed sections and delisting of Shares could adversely affect the liquidity and price of the Shares***

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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 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.

*(4) 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

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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.

***(5) 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.

***(6) 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.

***(7) 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.

*(8) 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.

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### ***(9) 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](mailto:orixir@orix.co.jp) and our URL is: [www.orix.co.jp/grp/index\\_e.htm](http://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 Iwai (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 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 our branches expanded. In April 1970, we listed the Shares on the second section of the Osaka Securities Exchange, which at the time was the fastest listing by a new company in post-World War II Japan. Since February 1973, the Shares have been listed on the first sections of the Tokyo and Nagoya Stock Exchanges and the Osaka Securities Exchange. In September 1998, ORIX listed on the New York Stock Exchange, or NYSE, with the ticker symbol **RIX**. 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

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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. Beginning in 1972 with the establishment of ORIX Alpha Corporation, or ORIX Alpha, which concentrated on leasing furnishings and fixtures to retailers, hotels, restaurants and other users, we set up a number of specialized leasing companies to tap promising new markets, including ORIX Auto Corporation, or ORIX Auto (former ORIX Auto Leasing Corporation), in 1973 and ORIX Rentec Corporation, or ORIX Rentec, in 1976. With the establishment of ORIX Credit, in 1979, we began our move into the retail market by providing shopping credit. We also began to provide housing loans in 1980.

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

Yoshihiko Miyauchi became President and CEO in 1980. During the 1980s, we continued to expand the range of our products and services, and placed increased emphasis on strengthening synergies among our group companies by emphasizing knowledge sharing and cooperation to make optimal use of corporate resources. This included a focus on cross-selling a variety of products and services to our customers, a focus that continues to this day.

During the 1980s, we began using mergers and acquisitions to expand operations, acquiring ORIX Securities Corporation (formerly Akane Securities K.K.), or ORIX Securities, and ORIX Estate Corporation (formerly OSAKA Ichioka Corporation) which is involved in real estate and leisure facility management, in order to expand our array of financial products and services.

In 1988, we acquired one of the twelve professional baseball teams in Japan, the ORIX Buffaloes (formerly the Hankyu Braves), which has helped raise our name recognition and promote our corporate image. In 1989, we introduced a corporate identity program and changed our name to ORIX Corporation from Orient Leasing Co., Ltd. to reflect our increasingly international profile and diversification into financial services other than leasing.

In the 1990s, the Japanese economy experienced a protracted period of industrial stagnation and, in the latter half of the decade, instability within the financial sector. Notwithstanding these adverse conditions, we continued to further develop and diversify our financial activities and products. For example, in 1991 we entered the life insurance business through ORIX Life Insurance (originally the Japanese operations of United of Omaha Life Insurance Company of the United States) and steadily increased our operations in this field. In addition, in 1997 we entered the loan servicing business through a joint venture with Bank One Corporation of the United States (the joint venture is presently part of ORIX USA). In December 2005, we sold the primary and master servicing departments and loan servicing assets of our loan servicing operations in the United States.

In the 1990s, we also made additional efforts to develop our retail business. ORIX Life Insurance commenced sales of a new range of directly marketed life insurance products ORIX Direct Life Insurance in September 1997, targeting the consumer life insurance market. In addition, we acquired ORIX Trust and Banking Corporation, or ORIX Trust and Banking (formerly Yamaichi Trust & Bank, Ltd.), in 1998, which has since concentrated primarily on housing loans. With deregulation of brokerage commissions in 1999, ORIX Securities began ORIX ONLINE, an internet-based brokerage aimed at individual investors.

In 1999, in order to increase the efficiency of our real estate-related operations, we established our Real Estate Finance Headquarters, which is primarily engaged in real estate-related finance, and ORIX Real Estate Corporation, or ORIX Real Estate, which focuses on the development, operation and management of real estate in Japan. After this reorganization, we expanded our activities to include loan servicing, real estate investment trusts, commercial mortgage-backed securities, integrated facilities management and asset management in Japan.

We established our Investment Banking Headquarters in 1999, and have since been attempting to expand our investment banking activities, which include principal investments, corporate rehabilitation and consulting.

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Since 2000, we have actively expanded our automobile-related operations by acquiring companies and assets. For example, in addition to our existing companies, ORIX Auto Leasing and ORIX Rent-A-Car, we purchased Senko Lease and IFCO Ltd. in 2001, Nittetsu Leasing Auto Co., Ltd. in 2002, and JAPAREN in 2003. We combined these companies into ORIX Auto in January 2005.

In January 2006, we entered the investment banking field in the US with the acquisition of Houlihan Lokey, which is involved in the M&A and restructuring advisory business.

**STRATEGY****Target Performance Indicators**

We have identified the growth rate of diluted net income per share, Return on Equity, or ROE, (ratio of net income to average shareholders equity) and the shareholders equity ratio as important performance indicators and, with special attention paid to these indicators, strive to construct a business portfolio focused on balancing growth, profitability and financial stability. From a medium- and long-term perspective, we will strive to achieve sustained growth in diluted net income per share and to maintain and improve our ROE. We look to sustain an appropriate shareholders equity ratio by balancing changes in our operations and level of risk.

The results of the three performance indicators indicated above for the past three years is shown below.

	2005	As of March 31, 2006	2007
<b>Net Income per Share (Diluted)</b>	¥ 1,002.18	¥ 1,790.30	¥ 2,100.93
<b>Return on Equity (%)</b>	14.2%	19.8%	18.3%
<b>Shareholders Equity Ratio</b>	12.0%	13.2%	14.6%

**Medium- and Long-Term Corporate Management Strategy**

We are aiming to achieve sustained growth over the medium- and long-term. With the continued evolution of the economy and society, market demands for innovative products and services increasingly impact the financial services sector, our principal operating domain. Accordingly, we have identified management's ability to promptly and flexibly respond to changing market needs as critical to sustaining growth over the medium- and long-term.

To realize this objective, we are undertaking operations based on the following strategies.

Expand our sales network developed through financial services, including leases and loans, and further strengthen base of operations for growth through diverse business expansion.

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Utilize our sales network to promote investment banking operations such as principal investments, including corporate rehabilitation and business succession, and advisory related to M&A and financial restructuring.

Expand our real estate-related operations by utilizing our strength of having the capabilities for both finance and real estate operations, in response to the changes in the market stemming from the growing trend of offering real estate as financial products, led by the expansion of real estate investment fund markets, including Japanese real estate investment trusts (J-REITs).

Diversify our overseas operations from existing businesses, focusing on financing for Small and Medium sized Enterprises (SMEs) to real estate-related operations and investment banking operations, as well as expansion into new regions.

**Table of Contents****Challenges to be addressed**

We understand that a robust and dynamic corporate structure is integral to achieving sustained growth. In specific terms, we intend to implement the following four measures.

Further improve our financial position.

Establish a workplace environment that is valued by employees.

Engage in transactions that comply with both social and economic values.

Enhance risk management.

From the perspective of further improving our financial position, going forward, we will continue to secure new growth opportunities aimed at realizing such improvement. We will strive to establish a rewarding and motivating workplace in which employees can fulfill their potential irrespective of nationality, age, gender or education level, thereby increasing the strength of the organization as a whole. In an effort to engage in a variety of transactions, we aim to provide quality products and services for our customers and increase our profitability, while engaging in socially-aware transactions with attention to legal compliance and environmental responsibility. In order to respond to a wide range of risks, including operational risk and market risk, we will implement a strict, multi-faceted initial screening process and will continue to implement an elaborate risk management system to minimize risk, monitoring periodically along the way. Concurrently, we will aim to carry out suitable capital allocations for the efficient utilization of shareholders' equity by assessing levels of risk by and investing and providing loans in business areas that are expected to be highly profitable.

**PROFILE OF BUSINESS BY SEGMENT**

Our reportable segments are based on FASB Statement No. 131. They are mainly identified based on the nature of services for operations in Japan and on geographic area for overseas operations. For a discussion of the basis for the breakdown of segments, see Note 30 in Item 18. Financial Statements.

The following table shows a breakdown of revenues by segment for the years ended March 31, 2005, 2006 and 2007.

	Years ended March 31,		
	2005	2006	2007
	(In millions of yen)		
<b>Operations in Japan:</b>			
Corporate Financial Services	¥ 90,795	¥ 97,683	¥ 123,328
Automobile Operations	117,871	130,775	146,966
Rental Operations	68,447	67,066	67,859
Real Estate-Related Finance	77,389	69,472	82,345

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Real Estate	195,906	198,780	245,336
Life Insurance	136,857	137,468	132,060
Other	143,754	111,854	145,443
<b>Sub-total</b>	<b>831,019</b>	<b>813,098</b>	<b>943,337</b>
<b>Overseas operations:</b>			
The Americas	53,084	70,223	119,940
Asia, Oceania and Europe	73,089	88,914	103,593
<b>Sub-total</b>	<b>126,173</b>	<b>159,137</b>	<b>223,533</b>
Total segment revenues	957,192	972,235	1,166,870
Difference between segment totals and consolidated amounts	(45,165)	(42,353)	(24,317)
Total consolidated amounts	¥ 912,027	¥ 929,882	¥ 1,142,553

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### **OPERATIONS IN JAPAN**

Our operations in Japan are conducted by ORIX and a number of our subsidiaries and affiliates. In general, our sales staff in Japan sells the full range of our products, including products of subsidiaries such as ORIX Auto, ORIX Rentec, ORIX Life Insurance and ORIX Facilities Corporation, or ORIX Facilities, which are cross-sold. However, other subsidiaries, such as our real estate subsidiary, serve more specialized functions. Products and services of these subsidiaries are handled by their dedicated sales staff, whose specialized training and experience are required in the markets they serve.

Our main customer base is comprised of small and medium-sized enterprises. However, we have expanded our client base to include large corporations in some business segments, such as the rental of precision measuring equipment, real estate-related finance and automobile leasing. We have also targeted individual customers as a growth area in various business segments, such as consumer card loans, housing loans, automobile leasing, automobile rentals, life insurance and online securities brokerage.

#### ***Corporate Financial Services***

The operations of the Corporate Financial Services segment, the core of our entire business, trace their origins back to when we were established as a specialist leasing company in 1964. The sales and marketing network of this segment extends throughout 97 locations in Japan to service a customer base consisting primarily of SMEs. We provide direct financing leases for various equipments, in addition to corporate loans, and engage in the provision of life and casualty insurance, investment products, as well as integrated facilities management services. Our sales representatives begin with the introduction of a lease or loan, after which we work to determine the needs of our customers. This allows us to provide various other products and services based upon particular customers' operational or practical needs.

The activities in this segment are conducted primarily through our four sales headquarters—the Tokyo Sales Headquarters, the Kinki (Osaka) Sales Headquarters, the District Sales Headquarters and the OQL Headquarters. The number of employees working for headquarters and subsidiaries in this segment is 1,726.

The Japanese economy is expected to show a continuing moderate recovery trend. Supported by this favorable business environment, SMEs, which are the principal customer group of the Corporate Finance Services business segment, are continuing to experience strong demand for funds as they make capital and other investments. In addition, along with the ending of the Bank of Japan's zero interest rate policy, interest rates are expected to rise gradually. While higher interest rates will expand the range of profit-making opportunities, other financial institutions, including the major banks, are expected to lend aggressively, thus leading to more intense competition.

In this environment, we are continuing to pursue marketing activities emphasizing profitability by increasing the number of frontline personnel and expanding our marketing network. We are also working to create cooperative relationships with regional financial institutions to build on our areas of professional strength. For example, in the field of loan guarantees, we are broadening our services to include guarantees of unsecured loans, guarantees of loans to environmentally conscious companies and guarantees of loans secured with movable property, such as trucks and other vehicles. As of March 31, 2007 we had tie-up arrangements with 103 regional financial institutions.

Going forward, we will strengthen our relationships with customers and, while continuing to provide leases, loans, and other debt financing, will offer services that accurately meet emerging needs. These include providing M&A advisory services and assistance in providing solutions for



business succession, while continuing to work jointly with our specialized departments.

*Automobile Operations*

The Automobile Operations segment consists of the automobile leasing and car rental operations. The number of employees working for subsidiaries in this segment is 1,901. The ORIX Group first launched its

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automobile leasing service for corporations in 1973. Today, this business offers a full range of vehicle management outsourcing services to meet customer needs from passenger cars to highly specialized trucks.

Our car rental operation began in 1985, and today rents vehicles under the ORIX Rent-A-Car, JAPAREN, and X-Rent-A-Car brands. With approximately 850 rental outlets across Japan, we offer a wide range of rental vehicles from passenger cars to trucks for both corporate and individual customers.

In January 2005, seven automobile-related leasing and car rental companies were integrated into ORIX Auto with the aim of expanding our product and service offerings and to achieve greater economies of scale.

With approximately 559,000 vehicles under lease as of March 31, 2007, we enjoy a substantial lead over the nearest competitor in the industry.

Recently, as a result of mergers and other business combinations among large leasing companies, competition has grown more intense, but we have diversified our operations beyond automobile leasing into other related areas, including car rentals, car sharing arrangements, and used car sales. Drawing on the synergies among these businesses, the segment is able to differentiate its offering by enhancing the quality of its services based on an understanding of customer needs.

We are taking full advantage of the marketing capabilities of ORIX's Corporate Financial Services segment, and also marketing through about 1,200 third-party sales agents, including gas stations, service shops, affiliated lease companies and insurance sales agents to expand our automobile leasing operations for corporate clients. Moreover, we are stepping up our marketing to companies in the distribution and logistics field, including leading distribution and transport companies. Drawing on its experience as the No. 1 truck leasing company, the segment not only offers vehicle management services but is also looking to develop driver management services.

The ORIX Group offers maintenance services to corporate clients, and this segment is continuing to strengthen its support services that are provided through a nationwide network of about 13,000 affiliated service stations. In addition, the segment provides further customer support through its advanced infrastructure that includes vehicle management and other systems. Other high-quality, high-value-added services for corporations include support services for preparation of environmental management reports submitted to the government, as well as telematic services that promote eco-friendly driving and facilitate corporate labor management processes through the acquisition and application of GPS system data.

The number of vehicles under the management of our car rental operations was approximately 47,000 as of March 31, 2007, placing us second in the industry. We offer our corporate and retail customers a full line of vehicles from all manufacturers, from passenger cars to trucks and specialty vehicles. In addition, we offer customers that have automobile leases with us packages, products and services combining rentals of our vehicles. Also, the segment began to offer relatively new and good-condition automobiles formerly used as rental cars as ORIX Certified Used Cars. in 2006.

### ***Rental Operations***

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We entered the precision measuring equipment rental market in 1976. Today our principal operations in this market include the rental of computers and precision measuring equipment, as well as the provision of technical support, calibration, asset administration services and a variety of other services related to rental equipment use. Maintaining a base of approximately 600,000 units of 30,000 different types of equipment, our automated warehouses provide customers with a rapid response to orders.

We are offering quick deliveries, calibration, and other services to respond to customers' management needs, and have built a strong position in the market for measuring equipment rental. The segment had 933 employees on a consolidated basis as of March 31, 2007.

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ORIX Rentec is the principal company conducting the business operations of this segment. In 1992, ORIX Rentec obtained ISO 9002 certification for the quality of its systems, becoming the first company in Japan's rental industry with such certification. In December 2000, this company also obtained ISO 14001 certification for its environmental management systems and in February 2007, added ISO 27001 certification for information security management. ORIX Rentec strives to maintain and improve customer satisfaction with services in its rental and calibration operations.

Along with the recovery in the Japanese economy and increase in private capital investment recently, the industrial electronics equipment market and the overall market are recovering. In the information and telecommunications market, vitality is returning to Japan's IT market and customer needs are growing along with requirements for improved information security.

The Rental Operations segment is working to boost utilization rates through careful selection of equipment types in light of customer trends in capital investment, and by promoting rental and related services.

Leveraging our cumulative know-how in logistics and calibration, we are working to further expand business beyond rental operations to management services encompassing procurement, operation and disposal of IT-related equipment, as well as information security management.

Regarding new business fields, ORIX Rentec is expanding the range of its operating lease products in such areas as environmental analysis, medical care, and semiconductor manufacturing equipment.

Overseas, demand for precision measuring equipment rentals is growing as corporations expand R&D and production centers globally. To capture this demand, we are expanding overseas operations in this segment. Commencing operations in Singapore in 1995, we then advanced into Korea in 2001 and China in 2004.

### ***Real Estate-Related Finance***

This segment provides real estate finance to corporations, a business that has its origins in the real estate-collateralized loan business we began in 1971, also provides real estate-related finance, including housing loans to individuals, a business we launched in 1980; non-recourse loans, started in 1999; and loan servicing businesses to invest in non-performing loans, started in 1999. Moreover, we have started to securitize non-recourse loans as commercial mortgage backed securities (CMBS) since 2000. The activities in this segment are conducted primarily by our Real Estate Finance Headquarters, ORIX Trust and Banking, and ORIX Asset Management & Loan Services. The number of employees working for headquarters and subsidiaries in this segment is 775.

In real estate finance for corporations, real estate funds in Japan and overseas are continuing to invest aggressively in properties and there is a strong demand for non-recourse loan financing from this source. On the other hand, real estate prices in portions of the central area of Tokyo are rising, and the capabilities for forecasting the profitability of real estate projects are essential for success. Amid this environment, this segment is working to secure profitability and differentiate its services by offering a wide range of solutions. Priority activities include strengthening capabilities for risk monitoring; investing in senior debt instruments, mezzanine financing, and equity; securitization of small loan obligations; and loan recoveries through servicer activities.

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Competition is intensifying in the housing loan business due to the entry of banks into the loan sector for investment purpose real estate. We are shoring up our competitiveness by flexibly setting loan periods and interest rate levels, based upon careful consideration of interest rate movements as well as offering products that meet the diversified needs of our customers.

In the field of investing in and servicing non-performing loans, major banks are increasing their activities, leading to a reduction in the availability of such assets for purchase from major banks.

On the other hand, we are pursuing new profit opportunities by providing many types of solutions to financial institutions. In addition to major banks, we are expanding business with regional financial institutions by building on bonds of trust created through the syndication of business restructuring funds.

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### ***Real Estate***

The Real Estate segment has its origins in corporate dormitory rentals, which we launched in 1986. We began developing residential condominiums in 1993. In addition to condominiums, the segment is now engaged in the development, marketing and leasing of office buildings and logistic facilities; operation of nursing care facilities; operation of hotels, training facilities and golf courses; integrated facilities management and related services; as well as asset management and administration on behalf of REITs. ORIX Real Estate and ORIX Facilities are our subsidiaries that are primarily responsible for activities in this segment. The number of employees working for subsidiaries in this segment is 2,240.

Conditions in Japanese real estate markets were generally positive, with a trend of recovery seen in prices of land in the greater Tokyo metropolitan area as well as in the principal cities of other regions. In 2006, new condominium sales nationwide and in the greater Tokyo metropolitan area were both down from the previous year; however, during 2007, new condominium sales in the Tokyo metropolitan area are expected to recover.

Amid this environment, we proceeded with residential condominium development operations in central Tokyo and Osaka as well as the suburbs of those two cities while carefully selecting land for new projects with due consideration to supply and demand factors.

In view of low office building vacancy rates in such large cities as Tokyo, Osaka, and Nagoya, Japanese real estate investment trusts (J-REITs) and other real estate investment funds have continued proactively expanding their operations. At the same time, they have broadened the scope of their investments to include office buildings, residential buildings, commercial facilities, and other kinds of properties. Against this backdrop, we are working to expand our office building development, sale, and rental activities into new locations and increase the diversity of investment targets, as reflected in our top-class ranking within the industry in terms of logistics facility development performance. We have also been selected to participate in the large-scale redevelopment plan for the Umeda-Kita Yard on the north side of the JR Osaka Station, and plans call for the redeveloped area to be opened to the public in 2011.

We are also proactively working to expand our business operating hotels, training facilities, and golf courses. We are taking steps to acquire additional hotels and complete the renovation of the hotels we have already acquired. We have begun developing the CROSS HOTEL high quality hotel brand, and during 2007 we are operating for the opening of a CROSS HOTEL in Sapporo and Osaka. We opened our fourth training facility in Makuhari, Chiba and have opened our fifth such facility in Fuchu, Tokyo in June 2007. The number of ORIX-owned golf courses had risen to 26 at the end of fiscal 2007, and we intend to continue proactive efforts to acquire additional courses. Operating senior housing as well as condominiums that meet the special needs of seniors, ORIX Living Corporation, or ORIX Living, is seeking to meet needs associated with Japanese society's progressive graying by working to further improve the quality of services provided to guests and proceeding with the creation of additional facilities in conjunction with the Group's residential condominium developments. At the end of fiscal 2007, ORIX Living had opened three facilities in Kobe, Osaka and Urayasu and plans call for a number of additional facilities to be in operation by the end of fiscal 2008.

### ***Life Insurance***

We began marketing life insurance to corporate customers in 1991 via sales agents. This segment now focuses on providing detailed insurance planning for customers based on their specific needs. Our insurance products have been sold by sales and marketing specialists in the Corporate Financial Services segment. In addition, we launched direct sales of ORIX Direct Insurance for individuals in 1997, and have since been working to expand sales to individuals. The number of employees working for subsidiaries in the Life Insurance segment is 483 and the

operations are conducted primarily by ORIX Life Insurance.

In the life insurance industry, customer needs continue to diversify in the retail insurance market, and more attention is being given to medical and other types of insurance outside the traditional life and non-life insurance categories.

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The ORIX Group has been striving to develop customer-oriented products such as term-life insurance, health insurance for hospitalization and cancer insurance that are simple and easy to understand and offer original features. These products are sold through two channels, sales agents and direct marketing.

During the fiscal year ended March 31, 2007, the principal products of the segment were death benefit insurance and medical insurance, which has earned a strong reputation among policyholders. The segment newly introduced Medical Insurance CURE in September 2006, a whole life policy that provides ample coverage for hospitalization for the seven lifestyle-related diseases. This new policy is being sold through agents and direct marketing and has been well-received by customers. The segment will place increased emphasis on high-margin insurance products.

We make full use of our Group network and work to increase external sales agents. We also strive to enhance collaboration between sales agents and direct marketing channels, increase the effectiveness of our advertising campaigns and boost operational efficiency.

As a result of the focus on the products previously mentioned, the ratio of long-term policy liabilities is rising. Accordingly, the segment is reviewing and modifying the maturity structure of its investment portfolio. Moreover, to provide for stable income from its portfolio, the segment is expanding the scope of its investment.

As of May 31, 2007, ORIX Life was rated A+ by R&I and JCR for payment capability of insurance claims and A- by S&P for insurance financial strength.

## ***Other***

The Other segment encompasses a range of operations including new businesses. Principal activities include card loans (which we began in 1987), venture capital (from 1983), securities brokerage and services (commenced through capital participation in 1986, and currently a 100% subsidiary) and principal investments (from 2000). This segment includes the equity method affiliates The Fuji Fire and Marine Insurance Company Limited, in which ORIX made an investment in 2002, and DAIKYO INCORPORATED, acquired in 2005. The activities in this segment are conducted primarily by ORIX, ORIX Credit, ORIX Capital Corporation, or ORIX Capital, and ORIX Securities. The number of employees working for headquarters and subsidiaries in this segment is 3,043, and employees associated with our principal investment operations are included in this number.

In the market for unsecured consumer loans, along with revisions in lending regulations, restrictions on lending above the legal interest rate ceiling in the Interest Limitation Law have been tightened. Moreover, many consumer credit companies have been obliged to set aside reserves for requests for repayment of excessive interest paid and change their existing business models. Amid this operating environment, for 20 years, our card loan business has concentrated its efforts on providing our VIP Loan Card at interest rates set below the legal ceiling to business people in their 30s and 40s. Looking ahead, as a pioneer in making loans in this interest band, we intend to use the know-how we have accumulated in lending, credit analysis, and advertising promotions to further expand our portfolio of unsecured consumer loans, continuing to focus on the VIP Loan Card.

In our venture capital operations, the elimination of minimum paid-in capital requirements under the Company Law, which came into effect in May 2006, has created an improved environment for entrepreneurs seeking to set up their own businesses. With these improved conditions, we seek to secure investment opportunities by continuing to cooperate closely with the Corporate Financial Services segment. As of March 31,



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2007, the outstanding balance of assets under management at ORIX Capital was approximately ¥30 billion, which consisted largely of stocks.

In the Internet-based brokerage business, the volume of transactions handled during the fiscal year ended March 31, 2007, reflected the slight weakening in the environment as a result of a reaction to the rise in stock prices and other factors. In addition, competition intensified as companies in this sector reduced their

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commissions. Amid this environment, in our securities business, we are working to diversify channels for winning new customers and moving forward to offer high-value-added services to customers, including lowering various fees, accepting stop-limit orders, and handling Nikkei 225 mini stock index transactions. Also, among our services for corporations, we are focusing on underwriting and, in March 2007, acted as lead manager for an IPO for the first time.

The volume of transactions in Japan's M&A market has risen for the third consecutive year, and M&A has come to be accepted as an important management strategy. On the other hand, along with the inflow of resources from investment funds in Japan and overseas, investors are competing more intensely with one another for selected companies. In view of these developments, in our principal investment business, we are shifting from investments in corporate restructurings to a focus on investing in business succession and corporate realignment opportunities. While cooperating with the Corporate Financial Services segment, we are endeavoring to aggressively identify potential investments. Also, along with the rising interest in domestic M&A and increasing requirements for business succession arrangements, we will seek further increases in revenues from our M&A advisory service business.

## **OVERSEAS OPERATIONS**

Since the establishment of our first overseas subsidiary in Hong Kong in 1971, we have competed in selected international markets through subsidiaries and investments in joint ventures. As of March 31, 2007, we operated in 25 countries and regions outside Japan through 102 subsidiaries and affiliates. Our overseas operations employ 3,372 employees working for headquarters and subsidiaries, and include a network of 245 offices.

### ***The Americas***

Our present operations in this segment include corporate finance, investment banking, real estate-related businesses, and leasing. In corporate finance, we have been providing corporate loans since 1981, and are also investing in high yield bonds. Our real estate-related operations began in 1987 with the acquisition of a real estate development company and since that time we have expanded into related operations including commercial mortgages. In leasing we have focused primarily on equipment leasing to corporate customers since 1989. In January 2006, we acquired the investment bank Houlihan Lokey, a leading M&A and financial advisor in the United States. The number of employees working for subsidiaries in this segment is 1,036. The activities in this segment are conducted by ORIX USA.

Supported by strength in the labor market, the U.S. economy has a low bankruptcy rate and is expected to continue to experience solid performance. In the U.S. real estate market, the volume of non-performing loans in the sub-prime segment is increasing and there is confusion in some markets, however, the inflow of funds into real estate investments from domestic and foreign sources is stable, and there continues to be intense competition among investors for opportunities, especially in the commercial real estate market. Given this operating environment, we plan to move forward with the sale of certain real estate holdings and, while carefully evaluating the real estate market and target properties, proceed with investments in CMBS and real estate development as well as other activities.

In the corporate real estate finance business, we are building our portfolio of operating assets, including loans to corporations, while securing personnel and placing emphasis on profitability and soundness. In the investment banking sector, subsidiary Houlihan Lokey is developing its activities in the fields of investment banking, including M&A and financial advisory; preparation of financial opinions and advisory services, such as opinions regarding fair valuations; and financial restructuring, including preparation and implementation of corporate realignment plans as well as restructuring of liabilities and capital. In 2006, Houlihan Lokey acted as advisor for the buyer or seller in 124 M&A deals under \$1 billion value, giving it the top share in the United States in this segment of the market. Through these and related activities, this company has

built a strong

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presence in the M&A advisory business. In July 2007, the company established an office in Hong Kong and, working together with its network of eight offices in the United States and three in Europe, is well positioned to respond flexibly to cross-border deals. Going forward, both ORIX's Corporate Finance Department and Investment Banking Department will work actively to introduce potential deals and thereby seek to increase the volume of assets and profitability.

***Asia, Oceania and Europe***

We established our first overseas office in Hong Kong in 1971 and over a 36-year period have expanded throughout Asia, Oceania, Europe, the Middle East, and North Africa. Operations consist primarily of corporate leasing and lending, ship finance, and transportation-related operating leases. In the Asia, Oceania and Europe segment, we operate in 21 countries and regions including Hong Kong, China, Singapore, Malaysia, Indonesia, the Philippines, Thailand, Sri Lanka, Taiwan, South Korea, Pakistan, India, Oman, Egypt, Saudi Arabia, UAE, Kazakhstan, Australia, New Zealand, Ireland and Poland. The number of employees working for headquarters and subsidiaries in this segment is 2,336. In this segment, which is mainly focused on Asia, the ORIX Group is committed to delivering financial products and services focusing on corporate leasing, hire purchase and lending. We are expanding our business operations by leveraging the Group's diversified products and services as well as our sales network.

Our automobile leasing operations apply the model developed by the ORIX Group in Japan. We have established automobile leasing operations in 15 countries. As a pioneer in its field, we are leveraging the expertise gained from operations in Australia and Japan as a springboard for business development in other countries. Accordingly, we have established automobile leasing companies in Singapore, South Korea, Thailand, Taiwan and India. In Taiwan, we are drawing on our experience in the loan servicing business to develop our non-performing loan investment business.

We are continuing to actively develop our overseas operations. Activities include investments in leasing businesses in Kazakhstan and China and the establishment of a fund to make infrastructure-related investments in India. In January 2007, ORIX launched its first overseas business effort with JCB, Japan's leading credit card company, and formed a tie-up with the leading MAF Group based in the United Arab Emirates to create a joint venture credit card company to develop the JCB brand in the Middle East and North Africa. This venture was based on a comprehensive business alliance that ORIX and JCB concluded in 2005.

In February 2007, ORIX established a joint venture in Singapore to participate in the development of real estate complexes in Hanoi, Vietnam. In addition to having a robust economy, Vietnam became a member of the WTO in January 2007 and is in the process of revising and upgrading its legislative framework governing foreign direct investment. Foreign companies are making investments in a wide range of areas in Vietnam. Conditions in the real estate market are also favorable, and this project is expected to play a role in development of the central area of Hanoi.

We believe that there are many business opportunities in the financial services field in Asia and the Middle East and are collecting a diverse range of information through our broad network in these regions with the objective of assuming an even more active stance in developing our business activities.

**DIVISIONS, MAJOR SUBSIDIARIES AND AFFILIATES**

A list of major subsidiaries and affiliates can be found in Exhibit 8.1.

**CAPITAL EXPENDITURES AND MAJOR M&A ACTIVITIES**

We are a financial services company with significant leasing, lending, real estate development and other operations based on investment in tangible assets. As such, we are continually acquiring and developing such

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assets as part of our business. A detailed discussion of these activities is presented elsewhere in this annual report, including in other parts of Item 4. Information on the Company and in Item 5. Operating and Financial Review and Prospects.

We also have made a number of acquisitions in other companies to expand our operations. Some of our recent acquisitions are described below.

In December 2002, a consortium including ORIX, the Hanwha Group (Korea), and Macquarie Life Limited acquired 51% of the outstanding shares of Korea Life Insurance, which was 100% controlled by the Korean Government.

In March 2005, we acquired an additional 42% of DAIKYO and preferred shares for approximately ¥47 billion. As a result of the acquisition, our stake in the company increased to 44%. In April 2005, we also refinanced approximately ¥32 billion of DAIKYO's debt. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

In January 2006, we established a new subsidiary holding company under ORIX USA and in which we have a 70% ownership interest on a consolidated basis that holds the Corporate Financial Group of ORIX USA and which subsequently acquired Houlihan Lokey, a US investment bank, valued at approximately \$500 million, in exchange for a 30% equity interest in the new subsidiary.

In general, we seek to expand and deepen our product and service offerings and enhance our financial performance by pursuing acquisition opportunities. We are continually reviewing acquisition opportunities, and selectively pursuing several such opportunities. We have in the past deployed a significant amount of capital for acquisition activities, and expect to continue to make selective investments in the future.

## **PROPERTY, PLANT AND EQUIPMENT**

Because our main business is to provide diverse financial services to our clients, we do not own any material factories or facilities that manufacture products. We have no plans to build any factories that manufacture products. However, in November 2002, a subsidiary of ORIX Eco Services signed an agreement to build and operate an industrial waste disposal facility, in Saitama Prefecture in Japan. The plant was completed and we began operations in June 2006.

The primary facilities we own include two office buildings, one training facility and one resource recovery plant. One office building is located in Shiba, Minato-ku, Tokyo with a book value of ¥37,818 million, and the other is located in Tachikawa, Tokyo with a book value of ¥25,018 million. The training facility is located in Funabashi, Chiba with a book value of ¥11,030 million, and the industrial waste disposal facility is located in Yorii, Saitama, with a book value of ¥15,459 million. Although there are presently no material plans to construct or improve facilities, we may build or acquire additional offices or make improvements to existing facilities if we believe the expansion of our business so warrants.

Our operations are generally conducted in leased office space in cities throughout Japan and in other countries in which we operate. We believe our leased office space is suitable and adequate for our needs. We utilize, or plan to utilize in the foreseeable future, substantially all of our leased office space.

We own office buildings, apartment buildings and recreational facilities for our employees with an aggregate value of ¥79,671 million as of March 31, 2007.

As of March 31, 2007, net book value of operating leases amounted to ¥842,395 million, which consists of ¥529,654 million of transportation equipment, ¥173,336 million of measuring equipment and personal computers, ¥477,351 million of real estate and other. Accumulated depreciation on the operating leases was ¥337,946 million as of the same date.

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**SEASONALITY**

Our business is not materially affected by seasonality.

**RAW MATERIALS**

Our business does not depend on the supply of raw materials.

**COMPETITION**

Our markets are highly competitive and are characterized by competitive factors that vary by product and geographic region. The markets for most of our products are characterized by a large number of competitors. Our competitors include leasing and finance companies, commercial banks and real estate companies. Some of our competitors have substantial market positions. Many of our competitors are large companies that have substantial capital and marketing resources, and some of these competitors are larger than us and may have access to capital at a lower cost than we do. Competition in Japan and in a number of other geographical markets has increased in recent years because of deregulation and increased liquidity. In addition, many banks in Japan, which during much of the last decade had serious non-performing loan problems and were thus often unable to increase lending, have made progress in dealing with their nonperforming loan problems. We believe these banks and their leasing or finance subsidiaries are attempting to target our core market of small and medium-sized enterprises.

Japan's leasing industry has a small number of independent leasing companies. Many leasing firms are affiliated with banks, trading houses, manufacturers and financial organizations. Furthermore, many of these leasing firms specialize in specific products, product ranges or geographical regions. In recent years leasing companies have been merging due to the business merger of related financial institutions, which has resulted in the formation of leasing companies of the same scale as our company. We have established a nationwide network to better distribute a full range of leasing and other financial products. Similarly, we believe our array of financial products and services, and the seamless way in which they are marketed, make us unique in the Japanese marketplace. The ability to provide one-stop, comprehensive financial solutions through a single sales staff, with cross-selling of our full range of products, gives us competitive advantages. We also believe that the diversification of our operations, products and services allows us to flexibly allocate our resources, expanding resources in or withdrawing resources from our various businesses, depending on market opportunities, profitability and the competitive environment.

In addition, a number of non-Japanese finance companies have established bases in Japan, or are in the process of expanding sales and marketing initiatives. Many of these companies compete with us in specific fields. However, we generally maintain the same competitive advantages over them that we enjoy over many Japanese competitors, namely that we are able to offer a wide range of products and services, not just a simple, discrete leasing product. Furthermore, we believe our extensive network of sales offices and experience in the Japanese marketplace provides us with other advantages over foreign leasing and asset finance firms entering the Japanese marketplace.

Moves to form alliances and achieve economies of scale are particularly accelerating in the field of automobile leasing. We believe we can maintain and expand our relatively favorable position in new service and product development capability and price competitiveness, not only by exploiting economies of scale in procuring vehicles and maintenance goods at low cost and investing in effective infrastructure to improve our services, but also by making full use of our jointly managed rent-a-car and used car sales functions.



In our rental operations, we believe the number of companies competing in the market for precision measuring equipment rentals is limited because the technical expertise needed to succeed in this business is a

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substantial barrier to entry for potential competitors. However, the barriers to entry for the computer rental market are relatively low, which means competition is more intense than it is in precision measuring equipment rentals. We strive to maintain our competitiveness in rental operations by maintaining a wide range of equipment and offering consulting services. We also enter new fields as the market changes.

In real estate-related finance, we compete with a variety of Japanese and foreign competitors. In the provision of non-recourse loans and other real estate-related loans, our major competitors are Japanese banks and, to a lesser extent, foreign investment banks. In certain sectors of the real estate-related finance market, we face intense competition, especially from Japanese banks. We believe our main strength lies in our ability to accurately analyze assets backing these loans because of our years of experience in both financing as well as developing, operating and managing real estate in Japan. In addition, we have been able to utilize our extensive business network in Japan to provide such loans to a broad range of customers. However, we cannot be sure that we will be able to compete if our competition provides loans on better terms than we do.

For the purchase of distressed assets, we compete primarily with foreign investment banks and equity funds, although some Japanese banks and equity funds are also active in this business. In general, competition is strong in this business. Competition for purchasing assets from regional banks has intensified. A major reason for this intensified competition is that many companies are registered as loan servicing companies and Japanese loan servicing companies are aggressively competing in bids for asset sales from these regional banks. On the other hand, the market for non-performing loans is shrinking as the economic expansion continues.

For housing loans, we have focused on a particular market niche of loans to individuals who purchase rental properties for investment purposes and loans to individuals who do not otherwise qualify for loans from major banks or the Japan Housing Finance Agency. In this field, competitors include only a limited number of non-bank financial institutions and banks. However, more banks including foreign-affiliated institutions are beginning to enter this market and competition has steadily increased. For example, some of the large banks have been very aggressive in this market and are offering loan rates that are lower than ORIX Trust and Banking is prepared to offer. ORIX Trust and Banking is attempting to meet this competition by setting flexible loan periods and interest rate levels based upon careful consideration of interest rate trends, and by introducing new products such as loans for seniors and group credit life insurance with nursing care riders. In addition, we are winning customers seeking fund management for investment purposes. However, fierce competition is adversely affecting the housing loan business, and we are striving to minimize risks by analyzing data on supply, sales, investors, the rental market, and other financial institutions.

The real estate market environment is changing, as an inflow of capital from real estate funds and a loosening of construction regulations have led to a rise in land prices and an increase in the number of companies aggressively investing in real estate. It appears that more companies are beginning to target the Company's main business fields, condominium development and the selling and leasing of office buildings. For condominium developments, we compete with a large number of both small and large Japanese development companies. We have been jointly developing projects with large developers who have highly evaluated our funding and planning capabilities. We have focused on differentiating ourselves from competitors by providing what we believe to be unique designs and functions as well as complex developments with assisted nursing facilities. We believe we have been able to offer competitively priced condominiums that have attracted buyers, but competition for buyers in the condominium development business is intense and is expected to remain so.

The sale of office buildings and commercial facilities continues to be strong due to the demand from real estate funds. Therefore, this demand is causing competition with other real estate companies for the acquisition of development purpose real estate in good locations. We are also diversifying our investment in logistics facilities, an area where competition may increase as other companies are also looking to expand in this area.

Recent consolidation and alliances among life insurance companies in Japan have increased competition within the insurance industry. In particular, competition in the market for medical insurance, a market we expect to grow, has intensified. In addition, as a result of deregulation, Japanese banks are now permitted to sell certain



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types of insurance directly to individuals. Certain banks are making efforts to expand this business. At present, banks are permitted to make only limited sales of individual annuity insurance and other savings-based products. However, the restrictions on products that can be sold at banks are due to be comprehensively removed in December 2007. We see this ability to market insurance through banks as a possible business opportunity for us, providing ORIX Life Insurance with new sales channels. If Japanese banks market insurance from life insurers other than ORIX Life Insurance, competition in the life insurance business could increase. Also, if existing Japanese life insurers are acquired by foreign insurers, such foreign insurers would gain access to established networks of sales agents.

Our investment business includes principal investment and venture capital investment. With the number and value of M&A transactions steadily increasing in recent years, in addition to independent domestic funds, bank funds, securities company funds, trading companies, and other domestic participants, foreign investment funds are actively investing in Japanese companies, which means competition to obtain good projects has intensified.

The Company is making every effort to obtain good projects by utilizing its strengths, which are ample experience and personnel in the domestic M&A market and our powerful group information network. We also fully leverage our capabilities as an independent financial group to develop proposals and access a wealth of information.

The market for unsecured consumer finance is entering a period of great change as a result of a revision of the Money Lending Control Law enacted in December 2006, and the enforcement of this law in stages in the future. Specifically, it has been decided to reduce the upper limit on loan interest and to control total loan amounts, which means it will become difficult for companies specializing in consumer loans to maintain a highly profitable business model. Realignment of the industry with a shakeout of smaller players is inevitable. It is also likely that the presence of banks, particularly the mega-banks, will be felt more than ever in the market for unsecured consumer loans. Therefore, it is likely that competition will intensify in the so-called prime sectors.

Major domestic securities companies have newly entered the online securities trading business, which means that further reductions in trading fees are likely and that the competitive environment will become more severe. In this environment, we will strengthen our product lineup and further diversify our services to provide high value-added services to customers. We have also begun to focus efforts in areas of trading other than online trading, and in services for corporate customers.

The competitive environment in corporate finance in the US is severe, as there are many US banks and non-bank institutions with large nationwide operating networks. These competitors are all positioned more favorably than us in terms of scale. The US finance market is mature and funds have high liquidity. Borrowers are in a favorable position with many choices of lenders, so year-by-year it becomes more difficult for lenders to obtain profitable projects. Also, there is strong competition in the investment banking business in the US between the global investment banks and the investment banking subsidiaries of the major US banks. In this market, the Company's investment banking business is based on its unique strength, which is providing advice on restructuring. We also aim to increase our competitive edge through synergistic effects in combination with our finance business.

In other foreign countries apart from the US, we provide financing mainly as leasing services for small- and medium-sized businesses. In this field, we compete with local leasing and finance companies. However, we have been able to maintain advantageous positions over many years by using the unique financial know-how we have built up in Japan to respond to diverse needs in each country.

## **BUSINESS REGULATION**

**Japan**

ORIX is incorporated under the Company Law and its corporate activities are governed by the Company Law; its group companies in Japan are also so incorporated and governed.

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There is no general regulatory regime which governs the conduct of our direct financing lease and operating lease businesses in Japan, although various laws regulate certain aspects of particular lease transactions, depending on the type of leased property.

The major regulations that govern our businesses are as follows:

### ***Moneylending Business***

ORIX and certain of our group companies, such as ORIX Credit, engage in the business of money lending in Japan. The business of money lending is regulated by the Interest Limitation Law, the Acceptance of Contributions Law, the Deposit and the Interest Law, and the Moneylending Business Law. The Moneylending Business Law requires that all companies register with the Prime Minister or prefectural governors. Registered moneylenders are regulated by the FSA, and are required to report to or notify the FSA, providing such documents as their annual business reports. Accordingly, pursuant to the Moneylending Business Law, ORIX and our relevant group companies register with the Prime Minister and provide the necessary reporting and notification to the FSA. The FSA has the power to order suspension of a part or the whole of a business, or to revoke the registration of a moneylender that has violated the law. In addition, in December 2006, laws related to the money lending business were amended for the purpose of enhancing borrower protection. The amendments tighten regulations by, among other things, reducing the maximum interest rate and introducing limits on the maximum amount of money that may be loaned to individuals. These amendments are to come into effect over a period of about three years.

### ***Real Estate Business***

ORIX and certain of our group companies, including ORIX Real Estate and ORIX Alpha, engage in the real estate business in Japan, such as the buying and selling of land and buildings. ORIX and our relevant group companies are therefore required to be licensed by the Ministry of Land, Infrastructure and Transport, or the MoLIT, or prefectural governors under the Building Lots and Building Transaction Law, and our operations are subject to the requirements of such laws, including the maintenance of registered real-estate transaction managers on staff and the provision and delivery of material information to counterparties.

### ***Car Rental Business***

ORIX Auto has registered with the MoLIT under the Road Transportation Law to engage in the car rental business in Japan and is subject to the requirements of such law and to inspection by the MoLIT.

### ***Insurance Business***

ORIX Life Insurance is engaged in the life insurance business and has a license from the Prime Minister under the Insurance Business Law. The FSA has broad regulatory powers over the life insurance business of ORIX Life Insurance, including the authority to grant or, under certain conditions, revoke its operating license, to request information regarding its business or financial condition and to conduct onsite inspections of its books and records. ORIX Life Insurance generally must also receive FSA approval for the sale of new products and to set new pricing terms.

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In addition, under the Insurance Business Law regulations, any party attempting to acquire voting rights of an insurance company over a specified threshold must receive permission from the Prime Minister. We have received such permission as a major shareholder in ORIX Life Insurance and The Fuji Fire and Marine Insurance Company, Limited. Insurance solicitation, which we and our group companies conduct, is also governed by the Insurance Business Law. We and certain of our group companies, such as ORIX Alpha and ORIX Auto, are registered as life insurance agents with the Prime Minister.

### *Securities Business*

ORIX Securities is engaged in the securities business and is registered with the Prime Minister under the Securities and Exchange Law. The Securities and Exchange Law regulates the business activities of securities

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companies and the conduct of securities companies related to securities transactions. The intermediary business that we conduct related to the sale of securities is also regulated by the Securities and Exchange Law. Under the Securities and Exchange Law, any entity that holds voting rights of a securities company in excess of a specified threshold is considered a major shareholder and must receive permission from the Prime Minister. ORIX has received such permission as a major shareholder of ORIX Securities. In addition, in June 2006, sweeping reforms to the Securities and Exchange Law were initiated, to come into effect throughout 2007. The amendments aim to provide comprehensive and broad-reaching user protection with regard to a wide range of financial products, including securities; the law will be renamed the Financial Instruments and Exchange Law. ORIX Securities and certain of our group companies (including ORIX) will be subject to this law as amended.

### ***Banking and Trust Business***

ORIX Trust and Banking, or OTB, is licensed by the Prime Minister to engage in the banking and trust business, and is regulated under the Banking Law, the Law concerning Trust Business Concurrently Conducted by Financial Institutions and the Trust Business Law. The Banking Law governs the general banking business and the Law concerning Trust Business Concurrently Conducted by Financial Institutions and the Trust Business Law govern the trust business. Sales of trust beneficiary interests by us and our group companies, such as ORIX Real Estate and ORIX Alpha, are also regulated under the Trust Business Law. We and these group companies are registered with the Prime Minister under the Trust Business Law to engage in the business of making such sales. Our trust contract agency business is also governed by the Trust Business Law, and we are registered with the Prime Minister to engage in such business. In addition, under the Banking Law, any entity that attempts to hold voting rights of a bank in excess of a specified threshold must receive permission from the Prime Minister. We have received such permission as a major shareholder of OTB.

### ***Debt Management and Collection Business***

ORIX Asset Management & Loan Services Corporation, or OAMLS, is engaged in the loan servicing business and the business of managing and collecting certain assets. Consequently, OAMLS is regulated under the Law for Special Measures Concerning the Debt Management and Collection Business. OAMLS is licensed by the Minister of Justice under such law to engage in the loan servicing business.

### ***Management Business of Investment Trusts***

ORIX Asset Management Corporation, or ORIX Asset Management, our wholly-owned subsidiary, is registered with the Prime Minister under the Law Concerning Investment Trusts and Investment Corporations, or the Investment Trust Law, as an asset manager for investment trusts. ORIX Asset Management is responsible for the asset management of a real estate investment trust, ORIX JREIT, that is listed on the Tokyo Stock Exchange. Under the Investment Trust Law, any entity possessing voting rights over a specified threshold is considered a major shareholder and must report this to the Prime Minister. ORIX has filed such a report as a major shareholder of ORIX Asset Management.

### ***Waste Management***

ORIX Resource Recycling Services Corporation, or ORIX Resource Recycling Services, has permission from the governor of Saitama Prefecture under the Waste Management and Public Cleansing Law for the installation of an industrial waste disposal facility to act as an industrial waste disposal contractor and as a specially controlled industrial waste disposal contractor and to engage in the installation of a municipal solid waste disposal facility. ORIX Resource Recycling Services is engaged in the waste management service regulated by the Waste



Management and Public Cleansing Law.

***Regulation on Share Acquisitions***

Certain of our activities and those of certain of ORIX group companies are regulated by the Foreign Exchange and Foreign Trade Law of Japan and the cabinet orders and ministerial ordinances there under, or the Foreign Exchange Regulations.

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Under the Foreign Exchange Regulations, the Company and certain ORIX group companies in Japan are regulated as residents conducting capital transactions or foreign direct investments. Moreover, if the ratio of foreign shareholders of the Company is more than 50%, the Company and the relevant group companies in Japan will be regulated as foreign investors conducting inward direct investment.

To conduct such activities under the Foreign Exchange Regulations, notices or reports are required to be filed with the governing agency through the Bank of Japan. In certain cases, the Minister of Finance and any other competent Ministers have the power to recommend the cancellation or modification of activities specified in such notices and can order such cancellation or modification if their recommendation is not followed.

### ***Outside Japan***

ORIX USA is incorporated under the laws of the state of Delaware and its corporate activities are governed by the Delaware General Corporation Law.

The SEC and various state agencies regulate the issuance and sale of securities and the conduct of broker-dealers, investment companies and investment advisors in the United States. ORIX USA's majority owned subsidiaries, Houlihan Lokey Howard & Zukin Capital, Inc. and Houlihan Lokey Howard & Zukin Financial Advisors, Inc., are a registered broker-dealer and a registered investment advisor, respectively, and as such, are regulated by the SEC. ORIX USA and its subsidiaries maintain exemptions from these regulations but must comply with U.S. federal and state securities laws.

ORIX USA's corporate finance, real estate finance and development, equipment finance, public finance and special servicing businesses are subject to numerous state and federal laws and regulations. Commercial and real estate loans may be governed by the USA PATRIOT Act, the Equal Credit Opportunity Act and its Regulation B, the Flood Disaster Protection Act, the National Flood Insurance Reform Act of 1994 and state usury laws. Real estate transactions are also governed by state real property and foreclosure laws. ORIX USA's equipment finance transactions are governed by the Uniform Commercial Code, as adopted by the various states. ORIX USA is registered with or has obtained licenses from the various state agencies that regulate the activity of commercial lenders in such states.

Outside of the United States, ORIX USA's majority owned subsidiary, Houlihan Lokey Howard & Zukin (Europe) Limited, or HLHZE, is authorized and regulated by the Financial Services Authority in the UK to arrange deals in investments and advise on investments. HLHZE has also established branches in France and Germany under the provisions of the Investment Services Directive and is regulated by the BaFin in Germany and the Autorite des Marches Financiers in France in the conduct of business from these branches. In addition, HLHZE has established a branch in Hong Kong which is authorized and regulated by the Securities and Futures Commission in Hong Kong.

In other regions outside of Japan, some of our businesses are also subject to regulation and supervision in the jurisdictions in which they operate.

## **LEGAL PROCEEDINGS**

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On July 21, 2006, ORIX Asset Management and ORIX JREIT were subject to administrative disciplinary action by the Financial Services Agency and the Kanto Local Finance Bureau, respectively, as a result of inspections by the Securities and Exchange Surveillance Commission. ORIX Asset Management was prohibited from executing new contracts for the management of the assets of real estate investment corporations and investment trusts other than ORIX JREIT for a period of three months. In addition, ORIX Asset Management and ORIX JREIT respectively were required to formulate and implement written business improvement plans. The Financial Services Agency and the Kanto Local Finance Bureau's actions were based on a determination that

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ORIX Asset Management had breached certain duties of care relating to its role as the general affairs administrator for ORIX JREIT and that ORIX JREIT had failed to comply with certain statutory requirements relating to its board of directors meetings.

On August 25, 2006, ORIX Asset Management received directives from the Ministry of Land, Infrastructure and Transport under the provisions of Article 65-1 of the Building Lots and Buildings Transaction Business Law. These disciplinary actions did not have a material impact on our financial condition or results of operations.

In addition, we are a plaintiff or a defendant in various lawsuits arising in the ordinary course of our business. We aggressively manage our pending litigation and assess appropriate responses to lawsuits in light of a number of factors, including potential impact of the actions on the conduct of our operations. In the opinion of management, none of the pending legal matters is expected to have a material adverse effect on our financial condition or results of operations. However, there can be no assurance that an adverse decision in one or more of these lawsuits will not have a material adverse effect.

Please refer to Item 3. Risk Factors for a discussion of legal proceedings related to Korea Life Insurance.

**Item 5. Operating and Financial Review and Prospects**

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**OVERVIEW**

The following discussion provides management’s explanation of factors and events that have significantly affected our financial condition and results of operations. Also included is management’s assessment of factors and trends which are anticipated to have a material effect on our financial condition and results of operations in the future. However, please be advised that financial conditions and results of operations in the future may also be affected by factors other than those discussed here. This discussion should be read in conjunction with Risk Factors within Item 3. Key Information Risk Factors and Item 18. Financial Statements included in this annual report.

Looking at consolidated performance during the fiscal year ended March 31, 2007, we achieved an 18% rise in net income, bringing net income to a new record high level of ¥196.5 billion. In fiscal 2007, we achieved a return on equity (ROE) ratio of 18.3%, shareholders’ equity ratio of

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14.6% and diluted net income per share of ¥2,100.93, reflecting a balance between profitability and financial stability while sustaining further profit growth. Among the reasons for our profit growth was the favorable operating environment created by economic expansion, as well as each of our business segments working to stay one step ahead of trends in their respective markets and effectively taking the measures required to generate growth. The main factors underlying our growth in fiscal 2007 are outlined below.

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Profit growth in fiscal 2007 was due to contributions from strong performances in the Real Estate segment, Real Estate-Related Finance segment, Corporate Financial Services segment and the Other segment in Japan, in addition to the Asia, Oceania and Europe segment overseas.

In the Corporate Financial Services segment, we have always strived to further strengthen our ties with small and medium-sized enterprises (SMEs), and with the economic improvement we have achieved solid results, as we supplied a growing volume of funding to customers for applications such as real estate development projects and capital investments. This growth has led to increases in assets as well as revenues.

In the Real Estate-Related Finance segment and the Real Estate segment, we have made strategic upfront investments to develop our operations based on the anticipation that the market would expand due to the increasing trend of offering real estate as financial products. The strength of the real estate market in Japan has supported growth in real estate finance operations, including non-recourse loans (for which repayment funds are derived solely from specified real estate assets and the cash flow of the assets), condominium development operations and real estate development and management operations focusing on office buildings. The development of both our real estate-related segments into solid performance pillars has become a driving force for growth in overall profits.

Furthermore, having strategically employed M&A transactions to enhance our operations in Japan and overseas since the 1980s, we have gained considerable experience and know-how related to such transactions, and we have proactively employed this expertise to undertake principal investment operations since 2000. A portion of the shares in Aozora Bank, in which we invested in connection with our corporate rehabilitation business, was sold in fiscal 2007 and contributed significantly to increased profits in the Other segment.

Overseas, profits increased in the Asia, Oceania and Europe segment due to contributions made by the expansion of leasing operations, such as automobile leasing, as well as loan servicing operations in Taiwan, higher gains on the one-time sale of a business unit in Australia and equity in net income of affiliates.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Note 1 of the notes to the consolidated financial statements includes a summary of the significant accounting policies used in the preparation of our consolidated financial statements. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ significantly from management's current judgments. We consider the accounting estimates discussed in this section to be critical accounting estimates for us for two reasons. First, the estimates require us to make assumptions about matters that are highly uncertain at the time the accounting estimates are made. Second, different estimates that we reasonably could have used in the relevant period, or changes in the accounting estimates that are reasonably likely to occur from period to period, could have a material impact on the presentation of our financial condition, changes in financial condition or results of operations. We believe the following represents our critical accounting policies and estimates.

### **ALLOWANCE FOR DOUBTFUL RECEIVABLES ON DIRECT FINANCING LEASES AND PROBABLE LOAN LOSSES**

The allowance for doubtful receivables on direct financing leases and probable loan losses represents management's estimate of probable losses inherent in the portfolio. This evaluation process is subject to numerous estimates and judgments. The estimate made in determining the allowance for doubtful receivables on direct financing leases and probable loan losses is a critical accounting estimate for all of our segments.



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In developing the allowance for doubtful receivables on direct financing leases and probable loan losses, we consider, among other things, the following factors:

the nature and characteristics of obligors;

current economic conditions and trends;

prior charge-off experience;

current delinquencies and delinquency trends;

future cash flows expected to be received from the direct financing lease or loan; and

the value of underlying collateral and guarantees.

In particular, the valuation allowance for large balance non-homogeneous loans is individually evaluated based on the present value of expected future cash flows and the observable market price or the fair value of the collateral securing the loans if the loans are collateral-dependent. The allowance for losses on smaller-balance homogeneous loans, including individual housing loans and card loans which are not restructured, and lease receivables, is collectively evaluated, considering current economic conditions and trends, the value of the collateral and guarantees underlying the loans and leases, prior charge-off experience, delinquencies and non-accruals. If actual future economic conditions and trends, actual future value of underlying collateral and guarantees, and actual future cash flows are less favorable than those projected by management or the historical data we use to calculate these estimates do not reflect future loss experience, additional provisions may be required.

The allowance is increased by provisions charged to income and is decreased by charge-offs, net of recoveries.

We review delinquencies or other transactions exceeding a specified amount as frequently as three times a month in the case of transactions in Japan. Transactions with payments more than 90 days past-due are reported to the Head of the Risk Management Headquarters. We stop accruing revenues on direct financing leases and installment loans when principal or interest is past-due more than 90 days, or earlier if management determines that it is doubtful that we can collect on direct financing leases and installment loans. The decision to suspend accruing revenues on direct financing leases and installment loans is based on factors such as the general economic environment, individual clients creditworthiness and historical loss experience, delinquencies and accruals. After we have set aside provisions for a non-performing asset, we carefully monitor the quality of any underlying collateral, the status of management of the obligor and other important factors. When we determine that there is little likelihood of continued repayment by the borrower or lessee, we sell the leased equipment or loan collateral, and we record a charge-off for the portion of the lease or loan that remains outstanding.

Under our charge-off policy, we charge off doubtful receivables when it is determined that prospects for further recovery from the obligor are minimal. Our policy requires the exercise of management judgment in assessing when a customer receivable has become worthless and when charge-off is appropriate. In exercising such judgment management considers criteria set forth in Japanese tax laws which focus on objective characteristics evidencing worthlessness, such as creditor-negotiated restructurings, legal extinguishment or extended suspension of transaction with the obligor beyond one year. These considerations may result in our charge-off of doubtful receivables later than might be the case for companies in other jurisdictions where regulatory or tax policies may not require that a worthlessness assessment be reached prior to charge-off



of the receivable. This potential difference in application of charge-off policy may result in our recognizing lower recoveries from charged-off receivables than might be experienced by reporting entities in other jurisdictions.

#### **IMPAIRMENT OF INVESTMENT IN SECURITIES**

We recognize losses related to securities under write-downs of securities in our consolidated statements of income when the market price for a security has declined significantly below the acquisition cost and the decline

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has been determined to be other than temporary. We would generally charge against income losses related to available-for-sale securities and held-to-maturity securities:

if the market price for a security has for more than six months remained significantly below our acquisition cost, or significantly below the current carrying value if the price of the security has been adjusted in the past;

in certain situations where, even though the market value of a debt security has not remained significantly below the carrying value for six months, if there has been a significant deterioration in a bond issuer's credit rating, an issuer's default or a similar event; or

in certain other situations where, even though the market value of an equity security has not remained significantly below the carrying value for six months, the decline in market value of an equity security is based on an issuer's specific economic conditions and not just general declines in the related market and where it is considered unlikely that the market value of the equity security will recover within the next six months.

Determinations of whether a decline is other than temporary often involve estimating the outcome of future events that are highly uncertain at the time the estimates are made. Management judgment is required in determining whether factors exist that indicate that an impairment loss should be recognized at any balance sheet date, mainly based on objective factors. In view of the diversity and volume of our shareholdings, the highly volatile equity markets make it difficult to determine whether the declines are other than temporary.

If the financial condition of an issuer deteriorates, the forecasted performance of an investee is not met or actual market conditions are less favorable than those projected by management, we may charge to income additional losses on investment in securities.

## **IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS NOT AMORTIZED**

We test for impairment of goodwill and any intangible assets that are not subject to amortization at least annually. Additionally if events or changes in circumstances indicate that the asset might be impaired, we test for impairment when such events occur.

Goodwill impairment is determined using a two-step process either at the operating segment level or one level below the operating segments. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying value, including goodwill. If the carrying value of a reporting unit exceeds its fair value, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss. The second step of the goodwill impairment test compares implied fair value of reporting unit goodwill with the carrying value of that goodwill. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill shall be determined in the same manner used to determine the amount of goodwill recognized in a business combination. Any intangible assets that are not subject to amortization are tested for impairment by comparing the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

The fair value of a reporting unit under the first step and the second step is determined by estimating the outcome of future events and assumptions made by management. Similarly, estimates and assumptions are used in determining the fair value of any intangible assets that is not subject to amortization. When necessary, we refer to the evaluation by the third party in determining the fair value of a reporting unit, however, such determinations are often evaluated by discounted cash flows analysis performed by us. This approach uses numerous estimates

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and assumptions including projected future cash flows of a reporting unit, discount rates reflecting the risk inherent and growth rate. If actual cash flows or any items which affect a fair value are less favorable than those projected by management due to economic conditions or own risk of reporting unit, we may charge additional losses to income.

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**IMPAIRMENT OF LONG-LIVED ASSETS**

We periodically perform an impairment review for long-lived assets held and used in operation, including tangible assets and intangible assets being amortized. The assets are tested for recoverability, whenever events or changes in circumstances indicate that those assets might be impaired, including, but not limited to, the following:

significant decline in the market value of an asset;

significant deterioration in the usage range and method, and physical condition of an asset;

significant deterioration of the legal factors and business environment, including an adverse action or assessment by a regulator;

acquisition and construction costs substantially exceeding estimates;

continued operating loss, loss of cash flows, or potential loss of cash flows; and

greater than 50% possibility of sale or disposal substantially before the end of the estimated useful life.

When we determine that an asset might be impaired based upon the existence of one or more of the above factors or other factors, we estimate the future cash flows expected to be generated by that asset. Our estimates of the future cash flows are based upon historical trends adjusted to reflect our best estimate of future market and operating conditions. Also, our estimates include the expected future period in which future cash flows are expected. As a result of the recoverability test, when the sum of the estimated future undiscounted cash flows expected to be generated by the assets is less than the carrying amount of the assets, we determine impairment based on the fair value of those assets.

If the asset is considered impaired, an impairment charge is recorded for the amount by which the carrying amount of the asset exceeds fair value. We determine fair value based on appraisals prepared by independent third party appraisers or our own staff of qualified appraisers, based on recent transactions involving sales of similar assets, or other valuation techniques to estimate fair value. If actual market and operating conditions under which assets are operated are less favorable than those projected by management, resulting in lower expected future cash flows or shorter expected future periods to generate such cash flows, additional impairment charges may be required. In addition, changes in estimates resulting in lower fair values due to unanticipated changes in business or operating assumptions could adversely affect the valuations of long-lived assets.

The accounting estimates relating to impairment of long-lived assets could affect all segments.

**UNGUARANTEED RESIDUAL VALUE FOR DIRECT FINANCING LEASES AND OPERATING LEASES**

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We estimate unguaranteed residual values of leased equipment except real estate, which is explained in Impairment of Long-lived Assets described above, when we calculate unearned lease income to be recognized as income over the lease term for direct financing leases and when we calculate depreciation amounts for operating leases which carry inherently higher obsolescence and resale risks. Our estimates are based upon current market values of used equipment and estimates of when and how much equipment will become obsolete. If actual future demand for re-lease or actual market conditions of used equipment is less favorable than that projected by management, write-downs of unguaranteed residual value may be required.

The accounting estimates relating to unguaranteed residual value for direct financing leases and operating leases affect mainly the Corporate Financial Services, Automobile Operations and Rental Operations segments and all of our overseas segments.

### **INSURANCE POLICY LIABILITIES AND DEFERRED POLICY ACQUISITION COSTS**

A subsidiary of ORIX writes life insurance policies to customers. Policy liabilities for future policy benefits are established for by the net level premium method, based on actuarial estimates of the amount of future

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policyholder benefits. The policies are characterized as long-duration policies and mainly consist of endowments, term life, whole life and medical insurance. Computation of policy liabilities and reserves necessarily includes assumptions about mortality, lapse rates and future yields on related investments and other factors applicable at the time the policies are written. The life insurance subsidiary continually evaluates the potential for changes in the estimates and assumptions applied in determining policy liabilities, both positive and negative, and uses the results of these evaluations both to adjust recorded liabilities and to adjust underwriting criteria and product offerings. If actual assumption data, such as mortality, lapse rates, investment returns and other factors, do not properly reflect future policyholder benefits, we may establish a premium deficiency reserve.

FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, requires insurance companies to defer certain costs associated with writing insurances, or deferred policy acquisition costs, and amortize them over the respective policy periods in proportion to anticipated premium revenue. Deferred policy acquisition costs are the costs related to the acquisition of new and renewal insurance policies and consist primarily of first-year commissions in excess of recurring policy maintenance costs and certain variable costs and expenses for underwriting policies. Periodically, deferred policy acquisition costs are reviewed for whether relevant insurance and investment income are expected to recover the unamortized balance of the deferred acquisition costs. When such costs are expected to be unrecoverable, they are charged to income in that period. If the historical data, such as lapse rates, investment returns, mortality experience, expense margins and surrender charges, which we use to calculate these assumptions do not properly reflect future profitability, additional amortization may be required.

The accounting estimates relating to insurance policy liabilities and deferred policy acquisition costs affect our Life Insurance segment.

## **ASSESSING HEDGE EFFECTIVENESS AND MEASURING INEFFECTIVENESS**

We use foreign currency swap agreements, interest rate swap agreements and foreign exchange forward contracts for hedging purposes and apply either fair value hedge, cash flow hedge or foreign currency hedge accounting to measure and account for subsequent changes in their fair value.

To qualify for hedge accounting, details of the hedging relationship are formally documented at the inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risks that are to be hedged, the derivative instrument and how effectiveness is being assessed. The derivative for hedge purpose must be highly effective in offsetting either changes in fair value or cash flows, as appropriate, for the risk being hedged and effectiveness needs to be assessed at the inception of the relationship.

Effectiveness is also assessed quarterly on a retrospective and prospective basis. Ineffectiveness is also measured quarterly, with the results recognized in earnings. If specified criteria for the assumption of effectiveness are not met at hedge inception or upon the quarterly testing, then the hedge accounting is discontinued. There are a variety of techniques used to assess effectiveness, including cumulative dollar offset and regression analysis.

## **PENSION PLANS**

The determination of our projected benefit obligation and expense for our employee pension benefits is mainly dependent on the size of the employee population, actuarial assumptions, expected long-term rate of return on plan assets and the discount rate used in the accounting.

Pension expense is directly related to the number of employees covered by the plans. Increased employment through internal growth or acquisition would result in increased pension expense.

In estimating the projected benefit obligation, actuaries make assumptions regarding mortality rates, turnover rates, retirement rates and rates of compensation increase. In accordance with FASB Statement No. 87,

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actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, impact expense and the recorded obligations in future periods.

We determine the expected long-term rate of return on plan assets annually based on the composition of the pension asset portfolios and the expected long-term rate of return on these portfolios. The expected long-term rate of return is designed to approximate the long-term rate of return actually earned on the plans' assets over time to ensure that funds are available to meet the pension obligations that result from the services provided by employees. We use a number of factors to determine the reasonableness of the expected rate of return, including actual historical returns on the asset classes of the plans' portfolios and independent projections of returns of the various asset classes.

We use March 31 as a measurement date for our pension assets and projected benefit obligation balances under the majority of our plans. If we were to assume a 1% increase or decrease in the expected long-term rate of return, holding the discount rate and other actuarial assumptions constant, pension expense would decrease or increase, respectively, by approximately ¥894 million.

Discount rates are used to determine the present value of our future pension obligations. The discount rates are reflective of rates available on long-term, high-quality fixed-income debt instruments with maturities that closely correspond to the timing of defined benefit payments. Discount rates are determined annually on the measurement date.

If we were to assume a 1% increase in the discount rate, and keep the expected long-term rate of return and other actuarial assumptions constant, pension expense would decrease by approximately ¥320 million. If we were to assume a 1% decrease in the discount rate, and keep other assumptions constant, pension expense would increase by approximately ¥848 million. The decrease to pension expense based on a 1% increase in discount rate differs from the increase to pension expense based on a 1% decrease in discount rate due to a 10% corridor.

While we believe the estimates and assumptions used in our pension accounting are appropriate, differences in actual results or changes in these assumptions or estimates could adversely affect our pension obligations and future expenses.

In June 2001, the Japanese pension law was amended to permit an employer to elect to transfer the entire substitutional portion of benefit obligation from the employees' pension fund, or EPF, to the government together with a specified amount of plan assets determined pursuant to a government formula. In fiscal 2004, we received government approval of exemption from the obligation for benefits related to future employee service with respect to the substitutional portion of our EPF. In fiscal 2005, we received government approval of exemption from the obligation for benefits related to past employee service with respect to the substitutional portion of our EPF and transferred the benefit obligation of the substitutional portion as well as the related government-specified portion of plan assets of the EPF to the government. We accounted for the transfer to the Japanese government of a substitutional portion of an EPF in fiscal 2005 in accordance with EITF Issue No. 03-2, or EITF 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities. As specified in EITF 03-2, the entire separation process was to be accounted for at the time of completion of the transfer to the government of the benefit obligation and related plan assets as a settlement in accordance with FASB Statement No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits. As a result of the completion of the transfer, in fiscal 2005 we recognized a gain on a subsidy from the Japanese government of ¥12,425 million, a gain on the reversal of retirement benefit liabilities as a result of de-recognition of previously accrued salary progression at the time of settlement for the substitutional portion of ¥2,618 million, and a loss of ¥14,470 million to liquidate the plan, which mainly included amortization of unrecognized actuarial loss. The net impact of the above was a gain of ¥573 million, which was recorded as a reduction in selling, general and administrative expenses in the consolidated statement of income for fiscal 2005.



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As of March 31, 2007, We adopted the currently effective recognition and disclosure provisions of FASB statement No. 158 Employers Accounting for Defined Benefits Pension and Other Postretirement Plans an

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amendment of FASB Statements No. 87, 88, 106 and 132(R) and recognized the overfunded or/and underfunded status of defined benefit pension plans, measured as the difference between the fair value of plan assets and the benefit obligation, as an asset or liability in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income, net of tax.

## **INCOME TAXES**

In preparing our consolidated financial statements we make estimates relating to income taxes of ORIX and our subsidiaries in each of the jurisdictions in which we operate. The process involves estimating our actual current income tax position together with assessing temporary differences resulting from different treatment of items for income tax reporting and financial reporting purposes. Such differences result in deferred income tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred income tax assets will be recovered from future taxable income, and to the extent we believe that recovery is not more likely than not, we must establish a valuation allowance. When we establish a valuation allowance or increase this allowance during a period, we must include an expense within the income tax provision in the consolidated statements of income.

Significant management judgment is required in determining our provision for income taxes, deferred income tax assets and liabilities and any valuation allowance recorded against our deferred income tax assets. We have recorded a valuation allowance due to uncertainties about our ability to utilize certain deferred income tax assets, primarily certain net operating loss carry forwards, before they expire. Although utilization of the net operating loss carry forwards is not assured, management believes it is more likely than not that all of the deferred income tax assets, net of the valuation allowance, will be realized. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred income tax assets will be recoverable. In the event that actual results differ from these estimates or if we adjust these estimates in future periods, we may need to establish additional valuation allowances, which could materially impact our consolidated financial position and results of operations.

A deferred tax liability has not been recognized for undistributed earnings of certain foreign subsidiaries as it is our intention to permanently reinvest those earnings. The deferred tax liability will be recognized when we are no longer able to demonstrate that we plan to permanently reinvest undistributed earnings. Accordingly, no provision has been made for foreign withholding taxes or Japanese income taxes, which would become payable if the undistributed earnings were paid as dividends to us.

## **DISCUSSION WITH AND REVIEW BY THE AUDIT COMMITTEE**

Our management has discussed the development and selection of each critical accounting estimate with our Audit Committee in June 2007.

## **RESULTS OF OPERATIONS**

## **GUIDE TO OUR CONSOLIDATED STATEMENT OF INCOME**

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The following discussion and analysis provides information that management believes to be relevant to an understanding of our consolidated financial condition and results of operations. This discussion should be read in conjunction with our consolidated financial statements, including the notes thereto, included in this annual report. See Item 18. Financial Statements.

Our consolidated results of operations are presented in the accompanying financial statements with sub-categorization of revenues and expenses designed to enable the reader to better understand the diversified operating activities contributing to our overall operating performance.

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As further described in Item 4. Information on the Company, since we developed the leasing market in Japan in 1964, we have extended the scope of our operations into various types of businesses which have become significant contributors to our group operating results. Our initial leasing business has expanded into the provision of broader financial services including direct lending to our lessees and other customers. Initial direct lending has broadened into diversified finance such as housing loans, loans secured by real estate, unsecured loans and non-recourse loans. Through our lending experience, we have developed a loan servicing business and a loan securitization business including CMBS. Through experience gained by our focusing on real estate as collateral for loans, we have also developed our real estate leasing, development and management operations.

Furthermore, we also expanded our business by the addition of securities-related operations, aimed at capital gains and brokerage income. Thereafter, we established and acquired a number of subsidiaries and affiliates in Japan and overseas to expand our operations, such as a trust bank, a life insurance company and a real estate-related company. In recent years, we have emphasized the expansion of our principal investment business. The Investment Banking Headquarters makes selective equity investments in companies and has been working to meet the needs of companies through recently expanding MBOs, sales of subsidiaries by large corporations, carve-outs and business successions, in addition to investments in rehabilitation companies, which they have continued over the past few years.

This diversified nature of our operations is reflected in our presentation of operating results through the categorization of our revenues and expenses to align with operating activities. Based on those diversified operating activities, we categorize our revenues as direct financing leases, operating leases, interest on loans and investment securities, life insurance premiums, real estate sales and other operating revenues and these revenues are summarized into Total Revenues on the consolidated statements of income.

The following is an additional explanation for certain account captions on our consolidated statements of income to supplement the discussion above:

Interest on investment securities is combined with interest on loans because we believe that capital we deploy is fungible and, whether used to provide financing in the form of loans and leases or through investment in debt securities, the decision to deploy the capital is a banking-type operation that shares the common objective of managing earning assets to generate a positive spread over our cost of borrowings.

In addition, securities investment activities were originated by the Company and extended to group companies, such as our US operations. As a result, gains on investment securities have grown and become one of our major revenue sources. We believed that the securities company subsidiary, which was acquired in the middle of the 1980 s, would grow our securities-related operations and contribute to our revenues and earnings. Against this background, we determined to present gains on investment securities under a separate income statement caption, together with brokerage commissions, because we invest in securities as one of our core operations and both the gains on investment securities and brokerage commissions are derived from our securities operations.

In our diversified operating activities including the corporate rehabilitation business, other operating revenues consist of revenues derived from our various operations which are considered a part of our recurring operating activities, such as integrated facilities management operations, vehicle maintenance and management services, management of golf courses, training facilities and hotels, real estate-related business and commissions for the sale of insurance and other financial products.

Furthermore, our expenses include mainly selling, general and administrative expenses, costs of operating leases, life insurance costs, costs of real estate sales, interest expenses, and other operating expenses.

Expenses reported by us within other operating expenses are directly associated with the sales and revenues separately reported within other operating revenues. Interest expense is based on funds borrowed mainly to purchase equipment for leases, extend loans and invest in securities and real estate operations, which are revenue-generating assets. We also consider the principal part of selling, general and administrative expenses to

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be directly related to the generation of revenues. Therefore, they have been included within our subtotal of operating expenses constituting our net operating income. We similarly view the provision for doubtful receivables and probable loan losses to be directly related to our finance activities and accordingly have included it within our subtotal of net operating income. As our principal operations consist of providing financial products and/or finance-related services to our customers, these expenses are directly related to the potential risks and changes in these products and services. Thus, we consider that our presentation, in which these expenses are stated in the Expenses section, is useful for readers to understand the profitability of our business.

We have historically reflected the write-downs of long-lived assets within our measure of operating income, as related assets, primarily real estate assets, represented significant operating assets under management or development, and accordingly the write-downs were considered to represent an appropriate component of the operating income derived from the related real estate investment activities. Similarly, as we have identified investment in securities to represent an operating component of our financing activities, write-downs of securities are also included within our measure of operating income.

We believe that our financial statement presentation as explained in the paragraphs above with the expanded presentation of revenues and expenses aids in the comprehension of our diversified operating activities in Japan and overseas and demonstrates the fair presentation of our consolidated statements of income.

**YEAR ENDED MARCH 31, 2007 COMPARED TO YEAR ENDED MARCH 31, 2006****Performance Summary****Income Statement Data**

	Year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Income statement data:</b>				
Total revenues	¥ 929,882	¥ 1,142,553	¥ 212,671	23
Total expenses	714,925	860,387	145,462	20
Operating income	214,957	282,166	67,209	31
Income before income taxes, minority interests in earnings of subsidiaries, discontinued operations and extraordinary gain	249,769	316,074	66,305	27
Net income	166,388	196,506	30,118	18

**Total Revenues**

	Year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Total revenues:</b>				
Direct financing leases	¥ 96,136	¥ 90,445	¥ (5,691)	(6)

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Operating leases	209,915	257,080	47,165	22
Interest on loans and investment securities	159,727	201,531	41,804	26
Brokerage commissions and net gains on investment securities	48,826	70,684	21,858	45
Life insurance premiums and related investment income	138,118	132,835	(5,283)	(4)
Real estate sales	74,943	87,178	12,235	16
Gains on sales of real estate under operating leases	8,970	22,958	13,988	156
Other operating revenues	193,247	279,842	86,595	45
Total	¥ 929,882	¥ 1,142,553	¥ 212,671	23

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Total revenues in fiscal 2007 increased 23% to ¥1,142,553 million compared with the previous fiscal year. Although direct financing leases, life insurance premiums and related investment income decreased year on year, revenues from operating leases, interest on loans and investment securities, brokerage commissions and net gains on investment securities, real estate sales, gains on sales of real estate under operating leases, and other operating revenues were up compared to the previous fiscal year.

**Total Expenses**

	Year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Total expenses:</b>				
Interest expense	¥ 59,168	¥ 81,541	¥ 22,373	38
Costs of operating leases	133,979	165,105	31,126	23
Life insurance costs	117,622	115,565	(2,057)	(2)
Costs of real estate sales	65,904	73,999	8,095	12
Other operating expenses	123,460	147,693	24,233	20
Selling, general and administrative expenses	185,950	253,467	67,517	36
Provision for doubtful receivables and probable loan losses	16,178	13,798	(2,380)	(15)
Write-downs of long-lived assets	8,336	3,163	(5,173)	(62)
Write-downs of securities	4,540	5,592	1,052	23
Foreign currency transaction loss (gain), net	(212)	464	676	
Total	¥ 714,925	¥ 860,387	¥ 145,462	20

Total expenses in fiscal 2007 increased 20% to ¥860,387 million compared with the previous fiscal year. Although interest expense, costs of operating leases, costs of real estate sales, other operating expenses, selling, general and administrative expenses, and write-downs of securities increased, life insurance costs, provision for doubtful receivables and probable loan losses, and write-downs of long-lived assets were down year on year.

**Operating Income, Income before Income Taxes, Minority Interests in Earnings of Subsidiaries, Discontinued Operations and Extraordinary Gain and Net Income**

Operating income in fiscal 2007 increased 31% due primarily to increased net revenues from interest on loans and investment securities, brokerage commissions and net gains on investment securities, and operating leases and declines in provision for doubtful receivables and probable loan losses, and write-downs of long-lived assets. Income before income taxes, minority interests in earnings of subsidiaries, discontinued operations and extraordinary gain increased 27% due primarily to the increase in operating income.

Net income in fiscal 2007 increased 18% as a result of the increase in income before income taxes, minority interests in earnings of subsidiaries, discontinued operations and extraordinary gain.

Basic and diluted earnings per share in fiscal 2007 were ¥2,177.10 and ¥2,100.93, respectively, compared to ¥1,883.89 and ¥1,790.30 in fiscal 2006.





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	As of March 31,		Change	
	2006	2007	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Operating assets:</b>				
Investment in direct financing leases	¥ 1,437,491	¥ 1,258,404	¥ (179,087)	(12)
Installment loans	2,926,036	3,490,326	564,290	19
Investment in operating leases	720,096	862,049	141,953	20
Investment in securities	682,798	875,581	192,783	28
Other operating assets	91,856	152,106	60,250	66
<b>Total operating assets</b>	<b>5,858,277</b>	<b>6,638,466</b>	<b>780,189</b>	<b>13</b>
Allowance for doubtful receivables on direct financing leases and probable loan losses	(97,002)	(89,508)	7,494	(8)
<b>Other assets</b>	<b>1,481,180</b>	<b>1,658,229</b>	<b>177,049</b>	<b>12</b>
<b>Total assets</b>	<b>¥ 7,242,455</b>	<b>¥ 8,207,187</b>	<b>¥ 964,732</b>	<b>13</b>

Operating assets increased 13% to ¥6,638,466 million in fiscal 2007. As a result of our selective process in accumulating quality operating assets (assets with appropriate risk and return), installment loans, investment in operating leases, investment in securities and other operating assets increased in fiscal 2007, while investment in direct financing leases decreased.

**Shareholders' Equity, ROE, and ROA**

Shareholders' equity grew 25% to ¥1,194,234 million in fiscal 2007 due to an increase of ¥22,970 million in common stock and additional paid-in capital from the conversion of convertible bonds, an increase in retained earnings from ¥733,386 million to ¥921,823 million, and an increase in accumulated other comprehensive income from ¥27,603 million to ¥55,253 million.

While total assets grew 13% compared with the end of fiscal 2006, the growth in shareholders' equity contributed to an improvement in the shareholders' equity ratio from 13.17% to 14.55%. ROE declined from 19.80% to 18.30%, while ROA rose from 2.50% to 2.54%.

**Table of Contents****Details of Operating Results**

The following is a discussion of items in the consolidated statements of income, operating assets in the consolidated balance sheets and other selected financial information. See Item 4. Information on the Company Business Overview.

**Revenues, New Business Volumes and Operating Assets****Direct financing leases**

	As of and for the year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Direct financing leases:</b>				
Direct financing lease revenues	¥ 96,136	¥ 90,445	¥ (5,691)	¥ (6)
Japan	71,279	62,615	(8,664)	(12)
Overseas	24,857	27,830	2,973	12
New receivables added	888,912	720,840	(168,072)	(19)
Japan	707,427	566,863	(140,564)	(20)
Overseas	181,485	153,977	(27,508)	(15)
New equipment acquisitions	800,802	636,723	(164,079)	(20)
Japan	623,360	501,699	(121,661)	(20)
Overseas	177,442	135,024	(42,418)	(24)
Investment in direct financing leases	1,437,491	1,258,404	(179,087)	(12)
Japan	1,107,809	966,907	(140,902)	(13)
Overseas	329,682	291,497	(38,185)	(12)

Revenues from direct financing leases in fiscal 2007 decreased 6% to ¥90,445 million compared to the previous fiscal year. In Japan, revenues from direct financing leases were down 12% to ¥62,615 million compared to ¥71,279 million in the previous fiscal year due primarily to the lower level of operating assets. Overseas, revenues were up 12% to ¥27,830 million compared to ¥24,857 million in the previous fiscal year due to the expansion of the leasing operations in the Asia, Oceania and Europe segment.

The average return we charge on direct financing leases in Japan, calculated on the basis of monthly balances, was almost the same level at 5.05% in fiscal 2007 compared to 4.97% in fiscal 2006. The average return on overseas direct financing leases, calculated on the basis of monthly balances, increased to 9.43% in fiscal 2007 from 9.13% in fiscal 2006.

New equipment acquisitions related to direct financing leases decreased 20% to ¥636,723 million compared to the previous fiscal year. New equipment acquisitions by Japanese operations decreased 20% in fiscal 2007, as a result of our selective process in accumulating quality operating assets (assets with appropriate risk and return). New equipment acquisitions by overseas operations decreased 24% in fiscal 2007 due primarily to declines in The Americas segment.

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Investment in direct financing leases as of March 31, 2007 decreased 12% to ¥1,258,404 million compared to the previous fiscal year. Assets in Japan decreased 13% due to declines in new equipment acquisitions and the securitization of lease receivables. Assets overseas decreased 12% due primarily to declines in The Americas segment.

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As of March 31, 2007, no single lessee represented more than 2% of our total portfolio of direct financing leases. As of March 31, 2007, 77% of our direct financing leases were to lessees located in Japan, while 6% were to lessees located in The Americas segment.

	As of March 31,		Change	
	2006	2007	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Investment in direct financing leases by category:</b>				
Information-related and office equipment	¥ 175,389	¥ 171,389	¥ (4,000)	(2)
Industrial equipment	226,939	189,319	(37,620)	(17)
Commercial services equipment	175,712	147,436	(28,276)	(16)
Transportation equipment	530,930	465,923	(65,007)	(12)
Other equipment	328,521	284,337	(44,184)	(13)
<b>Total</b>	<b>¥ 1,437,491</b>	<b>¥ 1,258,404</b>	<b>¥ (179,087)</b>	<b>(12)</b>

Investment in information-related and office equipment and commercial services equipment decreased 2% and 16%, respectively, due primarily to declines in Japan. Investment in industrial equipment and transportation equipment decreased 17% and 12%, respectively, due to declines in Japan and overseas.

Balances for investment in direct financing leases in the tables above do not include lease assets sold in securitizations. However, gains from securitization are included in our direct financing lease revenues. During fiscal 2006 and 2007, we sold in securitizations ¥108,973 million and ¥167,567 million, respectively, of direct financing lease assets (all of which were in Japan) that were treated as off-balance sheet assets. Gains from the securitization of these assets of ¥4,733 million and ¥4,237 million were included in direct financing lease revenues for fiscal 2006 and 2007, respectively. The balance of direct financing lease assets treated as off-balance sheet assets amounted to ¥193,998 million as of March 31, 2006 and ¥289,694 million as of March 31, 2007. If assets sold in securitizations were included, the total balance of investment in direct financing lease assets would be ¥1,631,489 million as of March 31, 2006 and ¥1,548,098 million as of March 31, 2007. For more information on securitization, see Note 9 of Item 18. Financial Statements.

*Asset quality of our owned direct financing leases*

	2005	As of March 31,	
		2006	2007
	(In millions of yen, except percentage data)		
<b>90+ days past-due direct financing leases and allowances for direct financing leases:</b>			
90+ days past-due direct financing leases	¥ 25,733	¥ 20,494	¥ 21,149
90+ days past-due direct financing leases as a percentage of the balance of investment in direct financing leases	1.77%	1.43%	1.68%
Provisions as a percentage of average balance of investment in direct financing leases (1)	0.39%	0.32%	0.14%
Allowance for direct financing leases	¥ 36,264	¥ 30,723	¥ 25,545
Allowance for direct financing leases as a percentage of the balance of investment in direct financing leases	2.50%	2.14%	2.03%

(1) Average balances are calculated on the basis of fiscal quarter-end balances.

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The increase in 90+ days past-due direct financing leases as of March 31, 2007 occurred due primarily to an increase in new 90+ days past-due direct financing leases overseas because of the collapse of lessees despite a decrease in new 90+ days past-due direct financing leases in Japan.

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We believe that the ratio of allowance for doubtful receivables as a percentage of the balance of investment in direct financing leases is a reasonable indication that our allowance for doubtful receivables was adequate as of March 31, 2007 for the following reasons:

lease receivables are generally diversified and the amount of realized loss on any particular contract is likely to be relatively small; and

all lease contracts are collateralized by the underlying leased equipment, and we can expect to recover at least a portion of the outstanding lease receivables by selling the underlying equipment.

The ratio of charge-offs as a percentage of the average balance of investment in direct financing leases was 0.73%, 0.75% and 0.52% for fiscal 2005, 2006 and 2007, respectively.

**Operating leases**

	As of and for the year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Operating leases:</b>				
Operating lease revenues	¥ 209,915	¥ 257,080	¥ 47,165	22
Japan	158,839	194,359	35,520	22
Overseas	51,076	62,721	11,645	23
New equipment acquisitions	317,645	348,561	30,916	10
Japan	249,829	258,338	8,509	3
Overseas	67,816	90,223	22,407	33
Investment in operating leases	720,096	862,049	141,953	20
Japan	578,221	689,646	111,425	19
Overseas	141,875	172,403	30,528	22

Revenues from operating leases increased 22% compared with the previous fiscal year to ¥257,080 million in fiscal 2007. In Japan, revenues from automobile and real estate operating leases increased as well as an increase in revenues from the precision measuring and other equipment rental operations. As a result, revenues from operating leases in Japan grew 22% year on year. Overseas, revenues from automobile operating leases increased in the Asia, Oceania and Europe segment and overall revenues rose 23% compared with the previous fiscal year. In fiscal 2006 and 2007, gains from the disposition of operating lease assets other than real estate were ¥7,184 million and ¥12,105 million, respectively, and are included in operating lease revenues.

New equipment acquisitions of operating leases increased 10% to ¥348,561 million in fiscal 2007 due primarily to an increase in the purchase of rental purpose real estate and transportation equipment, mainly including automobiles in Japan and overseas.

Investment in operating leases increased 20% to ¥862,049 million in fiscal 2007. These investments rose 19% in Japan and 22% in overseas due primarily to an increase in investments in rental purpose real estate and automobile leases.

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	As of March 31,		Change	
	2006	2007	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Investment in operating leases by category:</b>				
Transportation equipment	¥ 280,615	¥ 340,850	¥ 60,235	21
Measuring equipment and personal computers	52,059	61,463	9,404	18
Real estate and other	371,245	440,082	68,837	19
Rental receivables	16,177	19,654	3,477	21
Total	¥ 720,096	¥ 862,049	¥ 141,953	20



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Investment in transportation equipment-related operating leases rose by 21% to ¥340,850 million in fiscal 2007 due primarily to increases in automobile operating leases in Japan and overseas, while investments in measuring equipment and personal computers and real estate and other operating leases increased 18% and 19%, respectively, due primarily to increases in Japan.

**Installment loans and investment securities****Installment loans**

	As of and for the year ended March 31,		Change Amount	Change Percent (%)
	2006	2007		
(In millions of yen, except percentage data)				
<b>Installment loans:</b>				
Interest on installment loans	¥ 147,287	¥ 181,972	¥ 34,685	24
Japan	126,992	149,628	22,636	18
Overseas	20,295	32,344	12,049	59
New loans added	1,834,192	2,226,282	392,090	21
Japan	1,641,382	1,941,828	300,446	18
Overseas	192,810	284,454	91,644	48
Installment loans	2,926,036	3,490,326	564,290	19
Japan	2,655,420	3,145,424	490,004	18
Overseas	270,616	344,902	74,286	27

Interest on installment loans increased 24% compared with the previous fiscal year to ¥181,972 million in fiscal 2007. Revenues from interest on installment loans in Japan increased 18% due primarily to an expansion of non-recourse loans and loans to corporate borrowers. Interest on overseas installment loans increased 59% in fiscal 2007 primarily as a result of the contribution from loans to corporate borrowers in The Americas segment and the loan servicing operations in the Asia, Oceania and Europe segment.

The average interest rate earned on loans in Japan, calculated on the basis of monthly balances, decreased to 4.71% in fiscal 2007 compared to 4.90% in fiscal 2006 due primarily to a decrease in the average interest rate from loan servicing operations. The average interest rate earned on overseas loans, calculated on the basis of monthly balances, increased to 10.50% in fiscal 2007 from 9.23% in fiscal 2006 due primarily to a rise in market interest rates prevailing in The Americas segment.

New loans added increased 21% compared with the previous fiscal year to ¥2,226,282 million in fiscal 2007 due primarily to an increase in non-recourse loans and loans to corporate borrowers in both Japan and overseas.

The balance of installment loans as of March 31, 2007 increased 19% to ¥3,490,326 million compared to the balance as of March 31, 2006. The balance of installment loans for borrowers in Japan rose by 18% due primarily to increased non-recourse loans and loans to corporate borrowers and the balance of installment loans for overseas borrowers increased 27% due primarily to increased loans to corporate borrowers in The Americas segment.

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As of March 31, 2007, 90% of our installment loans were to borrowers in Japan, while 8% were to borrowers in The Americas segment.

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The table below sets forth the balances as of March 31, 2006 and 2007 of our installment loans to borrowers in Japan and overseas, categorized by the type of borrower (i.e., consumer or corporate) in the case of borrowers in Japan. As of March 31, 2007, ¥144,494 million, or 5%, of our portfolio of installment loans to consumer and corporate borrowers in Japan related to our life insurance operations. We reflected income from these loans in our consolidated statements of income as life insurance premiums and related investment income.

	As of March 31,		Change	
	2006	2007	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Installment loans:</b>				
<b>Consumer borrowers in Japan</b>				
Housing loans	¥ 654,171	¥ 627,659	¥ (26,512)	(4)
Card loans	318,910	335,288	16,378	5
Other	113,217	92,666	(20,551)	(18)
Subtotal	1,086,298	1,055,613	(30,685)	(3)
<b>Corporate borrowers in Japan</b>				
Real estate companies	416,128	620,946	204,818	49
Commercial, industrial and other companies	1,002,076	1,302,595	300,519	30
Subtotal	1,418,204	1,923,541	505,337	36
Total (Japan)	2,504,502	2,979,154	474,652	19
Overseas corporate, industrial and other borrowers	254,994	304,391	49,397	19
Purchased loans (1)	153,158	191,959	38,801	25
Loan origination costs, net	13,382	14,822	1,440	11
Total	¥ 2,926,036	¥ 3,490,326	¥ 564,290	19

- (1) Purchased loans represent loans with evidence of deterioration of credit quality since origination and for which it is probable at acquisition that collection of all contractually required payments from the debtors is unlikely in accordance with AICPA Statement of Position (SOP) No. 03-3 ( Accounting for Certain Loans or Debt Securities Acquired in a Transfer ) and consist mainly of housing loans, and loans to real estate companies and commercial, industrial and other companies in Japan.

As of March 31, 2007, ¥687,121 million, or 20%, of all installment loans were outstanding to real estate companies and construction companies. Of this amount, ¥14,801 million, or 0% of all installment loans, was loans individually evaluated for impairment. We calculated an allowance of ¥3,686 million to these impaired loans. As of March 31, 2007, we had installment loans outstanding in the amount of ¥279,737 million, or 8% of all installment loans, to companies in the entertainment industry. Of this amount, ¥17,311 million, or 1% of all installment loans, was loans individually evaluated for impairment. We calculated an allowance of ¥2,782 million to these impaired loans.

The balance of loans to consumer borrowers in Japan as of March 31, 2007 decreased by 3% to ¥1,055,613 million compared to the balance as of March 31, 2006 and the balance of loans to corporate borrowers in Japan as of March 31, 2007 increased by 36% to ¥1,923,541 million, compared to the balance as of March 31, 2006, due primarily to increased demand from corporate borrowers.

Balances of installment loans in the tables above do not include assets sold in securitizations. However, the amount of interest on installment loans includes gains from the securitization of installment loans. We sold in securitizations ¥76,043 million and ¥88,150 million of installment loans, which were treated as off-balance sheet assets in fiscal 2006 and 2007, respectively. Gains from the securitization of loans of

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¥1,776 million and ¥3,146 million were included in interest on installment loans in fiscal 2006 and 2007, respectively. The balance of installment loans treated as off-balance sheet assets amounted to ¥139,511 million and ¥154,357 million as of

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March 31, 2006 and 2007, respectively. If loans sold in securitizations were included, the total balance of installment loans would be ¥3,065,547 million and ¥3,644,683 million as of March 31, 2006 and 2007, respectively. For more information on securitization, see Note 9 in Item 18. Financial Statements.

*Asset quality of our owned installment loans*

We classify past-due installment loans into two categories: installment loans individually evaluated for impairment and 90+ days past-due loans not individually evaluated for impairment.

	2005	As of March 31, 2006 (In millions of yen)	2007
<b>Loans individually evaluated for impairment:</b>			
Impaired loans	¥ 86,021	¥ 83,658	¥ 100,589
Impaired loans requiring a valuation allowance	67,745	66,543	67,934
Valuation allowance (1)	35,150	31,056	29,189

- (1) The valuation allowance is individually evaluated based on the present value of expected future cash flows and the observable market price or the fair value of the collateral securing the loans if the loans are collateral dependent.

New provision for probable loan losses was ¥8,701 million in fiscal 2006 and ¥4,942 million in fiscal 2007, and charge-off of impaired loans was ¥12,982 million in fiscal 2006 and ¥7,222 million in fiscal 2007.

The table below sets forth the outstanding balances of impaired loans by region and type of borrower. Consumer loans in Japan primarily consist of restructured smaller-balance homogeneous loans individually evaluated for impairment. Such loans increased in fiscal 2006 and fiscal 2007 due to an increase in personal bankruptcies and legal actions that included debt restructuring.

	2005	As of March 31, 2006 (In millions of yen)	2007
<b>Impaired loans:</b>			
Consumer borrowers in Japan	¥ 10,204	¥ 11,474	¥ 17,878
Corporate borrowers in Japan			
Real estate companies	21,126	13,684	12,749
Commercial, industrial and other companies	39,671	37,234	48,785
Subtotal	60,797	50,918	61,534
Overseas corporate, industrial and other borrowers	5,211	4,766	6,412
Purchased loans	9,809	16,500	14,765
Total	¥ 86,021	¥ 83,658	¥ 100,589



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The table below sets forth information as to past-due loans which are not individually significant and accordingly are evaluated for impairment as a homogeneous group.

	2005	As of March 31, 2006	2007
	(In millions of yen, except percentage data)		
<b>90+ days past-due loans and allowance for installment loans:</b>			
90+ days past-due loans not individually evaluated for impairment	¥ 26,945	¥ 16,455	¥ 12,656
90+ days past-due loans not individually evaluated for impairment as a percentage of the balance of installment loans not individually evaluated for impairment	1.17%	0.58%	0.37%
Provisions as a percentage of average balance of installment loans (1)	0.73%	0.11%	0.22%
Allowance for probable loan losses on installment loans exclusive of those loans individually evaluated for impairment	¥ 43,836	¥ 35,223	¥ 34,774
Allowance for probable loan losses on installment loans exclusive of those loans individually evaluated for impairment as a percentage of the balance of installment loans not individually evaluated for impairment	1.91%	1.24%	1.03%

(1) Average balances are calculated on the basis of fiscal quarter-end balances.

The balance of 90+ days past-due loans not individually evaluated for impairment declined by 23% in fiscal 2007, principally due to charge-offs of ¥6,987 million in fiscal 2007.

	2005	As of March 31, 2006	2007
	(In millions of yen)		
<b>90+ days past-due loans not individually evaluated for impairment:</b>			
Consumer borrowers in Japan			
Housing loans	¥ 22,906	¥ 13,221	¥ 10,177
Card loans and other	3,468	2,742	2,376
Overseas corporate, industrial and other borrowers	571	492	103
Total	¥ 26,945	¥ 16,455	¥ 12,656

We make provisions against losses for these homogenous loans by way of general reserves for installment loans included in the allowance for doubtful receivables. We make allowance for housing loans in Japan after careful evaluation of the value of collateral underlying the loans, past loss experience and any economic conditions that we believe may affect the default rate.

We determine the allowance for our card loans and other items on the basis of past loss experience, general economic conditions and the current portfolio composition.

We believe that the level of the allowance as of March 31, 2007 was adequate because we expect to recover a portion of the outstanding balance for 90+ days past-due loans not individually evaluated for impairment primarily because most 90+ days past-due loans are housing loans, which are ordinarily made to a diverse group of individuals who we believe generally have a higher credit rating than the population at-large.

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The ratio of charge-offs as a percentage of the average balance of installment loans was 0.92%, 0.48% and 0.22% for fiscal 2005, 2006 and 2007, respectively.



**Table of Contents***Investment securities*

We maintain a sizeable investment in various securities. The largest segment of this portfolio is the investments by our life insurance operations. These constituted approximately 39% of our total investment in securities as of March 31, 2007. These are generally investments in yen-denominated corporate debt and consist primarily of fixed interest rate instruments.

	As of March 31, 2006		
	Life	Other	Total
	insurance		
	(In millions of yen)		
<b>Investment securities:</b>			
Trading securities	¥	¥ 61,971	¥ 61,971
Marketable debt securities	209,911	146,931	356,842
Marketable equity securities	4,572	70,892	75,464
Other securities (1)	53,795	134,726	188,521
Total	¥ 268,278	¥ 414,520	¥ 682,798

	As of March 31, 2007		
	Life	Other	Total
	insurance		
	(In millions of yen)		
<b>Investment securities:</b>			
Trading securities	¥	¥ 45,912	¥ 45,912
Marketable debt securities	283,648	243,857	527,505
Marketable equity securities	9,054	113,338	122,392
Other securities (1)	47,635	132,137	179,772
Total	¥ 340,337	¥ 535,244	¥ 875,581

(1) Other securities consist mainly of non-marketable equity securities, preferred capital shares and investment funds.

We present income from investments in separate lines of our consolidated statements of income, depending upon the type of security and whether the security is held in connection with our life insurance operations.

Interest we earn on interest-earning securities held in connection with operations other than life insurance is reflected in our consolidated statements of income as interest on loans and investment securities. All other non-interest income and losses (other than foreign currency transaction gains or losses and write-downs of securities) we recognize on securities held in connection with operations other than life insurance are reflected in our consolidated statements of income as brokerage commissions and net gains on investment securities. All income and losses (other than write-downs of securities) we recognize on securities held in connection with life insurance operations are reflected in our consolidated statements of income as life insurance premiums and related investment income.

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	As of and for the year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Investment securities:</b>				
Interest on investment securities	¥ 12,440	¥ 19,559	¥ 7,119	57
Japan	2,203	4,406	2,203	100
Overseas	10,237	15,153	4,916	48
New securities added	235,932	331,055	95,123	40
Japan	228,121	314,678	86,557	38
Overseas	7,811	16,377	8,566	110
Investment in securities	682,798	875,581	192,783	28
Japan	545,796	753,078	207,282	38
Overseas	137,002	122,503	(14,499)	(11)

Interest on investment securities other than those held in connection with our life insurance operations increased 57% in fiscal 2007 due primarily to a higher balance of securities in Japan and an increase in interest on investment securities in The Americas segment. The average interest rate earned on investment securities in Japan, calculated on the basis of monthly balances, was 2.43% in fiscal 2007 compared to 1.86% in fiscal 2006 due primarily to increase of investments in debt securities issued by special purpose entities, or SPEs. The average interest rate earned on overseas investment securities, calculated on the basis of monthly balances, increased to 9.66% in fiscal 2007 from 8.28% in fiscal 2006 due primarily to the increase in interest on investment securities in The Americas segment.

New securities added increased 40% in fiscal 2007. New securities added in Japan increased 38% in fiscal 2007 due primarily to increased investment in debt securities issued by SPEs in Japan. New securities added overseas increased 110% due primarily to increases in The Americas segment.

The balance of our investment in securities as of March 31, 2007 increased 28% compared to fiscal 2006. The balance of our investment in securities in Japan increased 38% due primarily to a higher balance of debt securities issued by SPEs in Japan, and the balance of our investment in securities overseas decreased 11% due primarily to decreases in The Americas segment.

	As of March 31,		Change	
	2006	2007	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Investment in securities by security type:</b>				
Trading securities	¥ 61,971	¥ 45,912	¥ (16,059)	(26)
Available-for-sale securities	432,306	649,897	217,591	50
Other securities	188,521	179,772	(8,749)	(5)
Total	¥ 682,798	¥ 875,581	¥ 192,783	28

Investments in trading securities decreased 26% in fiscal 2007 due primarily to decreased investments in trading securities in The Americas segment. Investments in available-for-sale securities increased 50% in fiscal 2007 due primarily to a higher balance of debt securities issued by SPEs and securities held were measured at fair value in connection with the listing of Aozora Bank, Ltd., or Aozora Bank, on the Tokyo Stock Exchange. As of March 31, 2007, our portfolio included investments in available-for-sale securities by The Americas segment in commercial mortgage-backed securities, totaling ¥52,433 million, and in high yield debt securities, totaling ¥10,734 million. Other securities decreased 5% in fiscal 2007 due primarily to the transfer of other securities to available-for-sale securities in connection with the listing of Aozora Bank on the Tokyo Stock Exchange.

The above table does not include assets sold in securitizations. We sold in securitization ¥2,651 million and ¥12,519 million of investment securities, which were treated as off-balance sheet assets in fiscal 2006 and 2007,

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respectively. Gains from the securitization of investment securities of ¥630 million and ¥379 million were included in net gains on investment securities in fiscal 2006 and 2007, respectively. The balance of investment securities treated as off-balance sheet assets amounted to ¥29,460 million and ¥41,535 million in fiscal 2006 and 2007, respectively. For more information on securitization, see Note 9 in Item 18. Financial Statements.

For further information on investment in securities, see Note 8 of Item 18. Financial Statements.

**Brokerage commissions and net gains on investment securities**

All non-interest income and losses (other than foreign currency transaction gains or losses and write-downs of securities) that we recognize on securities held in connection with operations other than life insurance are reflected in our consolidated statements of income as brokerage commissions and net gains on investment securities.

	Year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Brokerage commissions and net gains on investment securities:</b>				
Brokerage commissions	¥ 8,810	¥ 7,851	¥ (959)	(11)
Net gains on investment securities	40,016	62,833	22,817	57
Total	¥ 48,826	¥ 70,684	¥ 21,858	45

Brokerage commissions and net gains on investment securities increased 45% in fiscal 2007. Our brokerage commissions decreased 11% due to a decrease in revenues from the securities operations, while net gains on investment securities increased 57% due primarily to the strong performance of the venture capital operations in Japan, in addition to the gains on the sale of a portion of our shares in Aozora Bank in connection with its listing on the Tokyo Stock Exchange, and an increase in revenues of securities investments in The Americas segment.

As of March 31, 2007, gross unrealized gains on available-for-sale securities, including those held in connection with our life insurance operations, were ¥97,493 million, compared to ¥65,571 million as of March 31, 2006. As of March 31, 2007, gross unrealized losses on available-for-sale securities, including those held in connection with our life insurance operations, were ¥2,843 million, compared to ¥4,903 million as of March 31, 2006. These unrealized gains increased primarily as shares held were measured at fair value in connection with the listing of Aozora Bank on the Tokyo Stock Exchange.

**Life insurance premiums and related investment income**

We reflect all income and losses (other than write-downs of securities and provision for doubtful receivables and probable loan losses) that we recognize on securities, installment loans and other investments held in connection with life insurance operations in our consolidated statements of income as life insurance premiums and related investment income.

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	Year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Life insurance premiums and related investment income:</b>				
Life insurance premiums	¥ 125,130	¥ 121,373	¥ (3,757)	(3)
Life insurance-related investment income	12,988	11,462	(1,526)	(12)
Total	¥ 138,118	¥ 132,835	¥ (5,283)	(4)

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Life insurance premiums and related investment income decreased 4% to ¥132,835 million in fiscal 2007 compared to fiscal 2006. Life insurance premiums decreased 3%, and life insurance-related investment income decreased 12% in fiscal 2007.

	As of March 31,		Change	
	2006	2007	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Investments by ORIX Life Insurance:</b>				
Marketable debt securities	¥ 209,911	¥ 283,648	¥ 73,737	35
Marketable equity securities	4,572	9,054	4,482	98
Other securities	53,795	47,635	(6,160)	(11)
Total investment in securities	268,278	340,337	72,059	27
Installment loans and other investments	223,579	170,714	(52,865)	(24)
Total	¥ 491,857	¥ 511,051	¥ 19,194	4

Marketable debt securities in fiscal 2007 increased 35%, while installment loans and other investments decreased 24%, due mainly to a reallocation in our investment portfolio.

	Year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Breakdown of life insurance-related investment income:</b>				
Net gains (losses) on investment securities	¥ (1,531)	¥ 3,208	¥ 4,739	
Interest on loans and investment securities, and others	14,519	8,254	(6,265)	(43)
Total	¥ 12,988	¥ 11,462	¥ (1,526)	(12)

For further information on life insurance operations, see Note 21 of Item 18. Financial Statements.

**Real estate sales**

	Year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Real estate sales:</b>				
Real estate sales	¥ 74,943	¥ 87,178	¥ 12,235	16

Revenues from real estate sales increased 16% year on year to ¥87,178 million in fiscal 2007 due mainly to an increase in the number of condominiums sold to buyers from 2,032 units in fiscal 2006 to 2,194 units in fiscal 2007.

*Gains on sales of real estate under operating leases*

	Year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Gains on sales of real estate under operating leases:</b>				
Gains on sales of real estate under operating leases in Japan	¥ 8,970	¥ 22,958	¥ 13,988	156

Gains on sales of real estate under operating leases increased 156% to ¥22,958 million in fiscal 2007 due primarily to the increase in real estate under operating leases that was sold but were not included in discontinued

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operations. Gains recognized under this item refer to gains on sales of real estate under operating leases for which properties we have a significant continuing involvement after sale. Gains for which properties we do not continue to provide services are included in discontinued operations. For discussion of accounting policy for discontinued operations, see Note 24 in Item 18, Financial Statements.

**Other operations**

	As of and for the year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Other operations:</b>				
Other operating revenues	¥ 193,247	¥ 279,842	¥ 86,595	45
Japan	181,007	215,577	34,570	19
Overseas	12,240	64,265	52,025	425
New assets added	132,017	215,409	83,392	63
Japan	132,017	214,115	82,098	62
Overseas		1,294	1,294	
Other operating assets	91,856	152,106	60,250	66
Japan	88,150	146,487	58,337	66
Overseas	3,706	5,619	1,913	52

Other operating revenues increased 45% year on year to ¥279,842 million. In Japan, revenues were up 19% to ¥215,577 million compared to ¥181,007 million in the previous fiscal year due to the increases in revenues associated with the real estate management operations, including training facilities and golf courses, and the automobile maintenance service operations, as well as the contribution from companies which we invested in the previous and this fiscal year, and private finance initiative, or PFI operations, in addition to contributions of servicing fees from our loan servicing operations. Overseas, revenues increased almost five times to ¥64,265 million compared to ¥12,240 million in the previous fiscal year due to the full-years revenue contribution of Houlihan Lokey in this fiscal year to The Americas segment, whereas in the previous fiscal year its revenues only contributed to fourth quarter revenues.

New assets added for other operating transactions were up 63% to ¥215,409 million in fiscal 2007 due primarily to new acquisitions of assets by real estate management operations. Other operating transactions include other operating assets and real estate for sale, such as residential condominiums and commercial real estate.

Other operating assets increased 66% to ¥152,106 million mainly reflecting investments made in connection with real estate management operations in Japan.

**Expenses****Interest expense**



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Interest expense was up 38% year on year to ¥81,541 million. Interest expense increased 33% year on year in Japan and increased 45% year on year overseas, due to the higher average debt levels and higher interest rates.

The average interest rate on our short-term and long-term debt in Japan, calculated on the basis of monthly balances, was 1.09% in fiscal 2007, compared to 0.97% in fiscal 2006. The average interest rate on our short-term and long-term overseas debt, calculated on the basis of monthly balances, increased to 5.66% in fiscal 2007 from 4.81% in fiscal 2006 reflecting higher interest rates.

**Table of Contents*****Costs of operating leases***

Costs of operating leases increased 23% to ¥165,105 million in fiscal 2007 due primarily to the increase in the average balance of investment in operating leases compared to the previous fiscal year.

***Life insurance costs***

Life insurance costs in fiscal 2007 decreased 2% to ¥115,565 million, corresponding to a decrease in life insurance premiums, while margins decreased to 13% in fiscal 2007 compared with 15% in fiscal 2006, due mainly to a decrease in life insurance-related investment income.

***Costs of real estate sales***

Costs of real estate sales were up 12% year on year to ¥73,999 million along with the increase in real estate sales. Costs of real estate sales includes upfront costs associated with advertising and creating model rooms. Margins improved to 15% in fiscal 2007 from 12% in fiscal 2006.

***Other operating expenses***

Other operating expenses increased 20%, corresponding to the increase in other operating revenues.

***Selling, general and administrative expenses***

	Year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Selling, general and administrative expenses:</b>				
Personnel expenses	¥ 94,399	¥ 140,831	¥ 46,432	49
Selling expenses	27,843	35,811	7,968	29
Administrative expenses	60,423	72,818	12,395	21
Depreciation of office facilities	3,285	4,007	722	22
Total	¥ 185,950	¥ 253,467	¥ 67,517	36

Employee salaries and other personnel expenses account for approximately half of selling, general and administrative expenses, and the remaining half consists of general overhead expenses such as rent for office spaces, communication expenses and travel expenses. Selling, general and administrative expenses in fiscal 2007 increased 36% year on year, primarily due to an increase in personnel and related expenses

associated with Houlihan Lokey, which entered the ORIX Group in the fourth quarter of the previous fiscal year, as well as an increase in the number of employees in the Corporate Financial Services and Automobile Operations segments as a result of an effort to expand our sales platform in Japan.

*Provision for doubtful receivables and probable loan losses*

We make provisions for doubtful receivables and probable loan losses for direct financing leases and installment loans. New provisions for doubtful receivables and probable loan losses in fiscal 2007 decreased 15% as compared to the previous year. Provisions for direct financing leases declined 58% due to reversals of provision for doubtful receivables recorded by some subsidiaries. Provisions for loans not individually evaluated for impairment increased 146% due to a growth in corporate loans in Japan and overseas. Provisions for loans individually evaluated for impairment decreased 43% due primarily to the improvement of asset quality in Japan.

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	Year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Provision for doubtful receivables on direct financing leases and probable loan losses:</b>				
Beginning balance	¥ 115,250	¥ 97,002	¥ (18,248)	(16)
Direct financing leases	36,264	30,723	(5,541)	(15)
Loans not individually evaluated for impairment	43,836	35,223	(8,613)	(20)
Loans individually evaluated for impairment	35,150	31,056	(4,094)	(12)
Provisions charged to income	16,178	13,798	(2,380)	(15)
Direct financing leases	4,674	1,974	(2,700)	(58)
Loans not individually evaluated for impairment	2,803	6,882	4,079	146
Loans individually evaluated for impairment	8,701	4,942	(3,759)	(43)
Charge-offs (net)	(36,131)	(21,330)	14,801	(41)
Direct financing leases	(11,018)	(7,121)	3,897	(35)
Loans not individually evaluated for impairment	(12,131)	(6,987)	5,144	(42)
Loans individually evaluated for impairment	(12,982)	(7,222)	5,760	(44)
Other (1)	1,705	38	(1,667)	(98)
Direct financing leases	803	(31)	(834)	
Loans not individually evaluated for impairment	715	(344)	(1,059)	
Loans individually evaluated for impairment	187	413	226	121
Ending balance	97,002	89,508	(7,494)	(8)
Direct financing leases	30,723	25,545	(5,178)	(17)
Loans not individually evaluated for impairment	35,223	34,774	(449)	(1)
Loans individually evaluated for impairment	31,056	29,189	(1,867)	(6)

(1) Other includes foreign currency translation adjustments and amounts reclassified to discontinued operations.

**Write-downs of long-lived assets**

In accordance with FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we performed an impairment review for long-lived assets in Japan and overseas such as golf courses, corporate dormitories, office buildings, hotel properties and commercial buildings, and condominiums. Write-downs totaling ¥3,163 million were made in fiscal 2007, a decrease of 62% compared to fiscal 2006. The majority of write-downs in fiscal 2007 totaled ¥1,192 million and was associated with nine corporate dormitories that are to be disposed of by sale.

In accordance with FASB Statement No. 144, an asset is generally deemed to be impaired if the undiscounted future cash flows estimated to be generated by the asset are expected to be less than the current carrying value of the asset. If an asset is deemed to be impaired, the value of the asset is written down to estimated fair value. The requirements of FASB Statement No. 144 potentially result in large charges being recorded in a given period as a result of relatively smaller changes in estimated future cash flows. An asset is generally not considered to be impaired so long as its estimated future cash flows exceed its carrying value. However, once the estimated future cash flows are believed to be less than the current carrying value, the asset is written down to estimated fair value (which is in general the appraised value). A write-down to estimated fair value prior to a determination of impairment is not permitted.

Our total investment in long-lived assets as of March 31, 2007 was ¥1,186,973 million. ¥915,563 million of long-lived assets were included in business segments in Japan, ¥180,730 million were included in overseas business segments, and the remaining assets mainly consist of office facilities that are regarded as corporate assets. Of the long-lived assets in business segments in Japan, ¥602,629 million were in the Real Estate segment. For a breakdown of long-lived assets by segment, see Note 30 of Item 18. Financial Statements.



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### ***Write-downs of securities***

Write-downs for fiscal 2007 were primarily in connection with securities for venture capital investments. In fiscal 2007, write-downs increased 23% from ¥4,540 million in fiscal 2006 to ¥5,592 million in fiscal 2007.

### ***Foreign currency transaction loss, net***

We recognized a foreign currency transaction net loss in the amount of ¥464 million in fiscal 2007, due primarily to appreciation of the euro against the dollar. For information on the impact of foreign currency fluctuations, see Item 11. Qualitative and Quantitative Disclosures about Market Risk.

### ***Equity in net income of affiliates***

Equity in net income of affiliates in fiscal 2007 was flat compared to the previous fiscal year at ¥31,946 million due to an increase in profits from equity method affiliates, which includes earnings on investments in residential condominiums developed through certain joint ventures, despite lower profits from other equity method affiliates.

For discussion of investment in affiliates, see Note 11 of Item 18. Financial Statements.

### ***Gains on sales of subsidiaries and affiliates and liquidation losses***

Gains on sales of subsidiaries and affiliates and liquidation losses in fiscal 2007 were down 28% year on year to ¥1,962 million, primarily reflecting gains made on the sale of subsidiaries transferred to discontinued operations.

### ***Provision for income taxes***

Provision for income taxes in fiscal 2007 was ¥126,358 million, compared to the provision of ¥96,790 million in fiscal 2006. The increase of ¥29,568 million was due primarily to higher income before income taxes, minority interests in earnings of subsidiaries, discontinued operations and extraordinary gain. For discussion of income taxes, see Note 15 in Item 18. Financial Statements.

### ***Minority Interests in Earnings of Subsidiaries***

Minority interests increased 48% year on year to ¥4,781 million as a result of the minority interests in earnings from the beginning of the first quarter of this fiscal year of Houlihan Lokey.

***Discontinued operations***

We base disclosure of discontinued operations on FASB Statement No. 144. Under FASB Statement No. 144, the scope of discontinued operations is broadened to include operating results of any component of an entity with its own identifiable cash flow and in which asset we will cease to have significant continuing involvement. Income from discontinued operations, net refers to net income from the sale or disposal by sale of subsidiaries, business units, and real estate under operating leases in which we no longer have significant continuing involvement. Discontinued operations, net of applicable tax effect, decreased 34% to ¥10,998 million in fiscal 2007 due primarily to a gain on a sale of a business unit in The Americas segment in the previous fiscal year and lower gains on sales of real estate assets in Japan and The Americas segment as compared to the previous fiscal year.

***Extraordinary gain***

We recorded an extraordinary gain of ¥573 million in fiscal 2007, which resulted from an acquisition of interests in an affiliate company, in accordance with FASB Statement No. 141, Business Combinations, because our proportional share of the fair value of investee net assets exceeded the acquisition cost.

**Table of Contents****Segment Information**

The following table presents segment financial information on the basis that is regularly used by management for evaluating segment performance and deciding how to allocate resources. The reportable segments are mainly identified based on the nature of services for operations in Japan and on the basis of geographic area for overseas operations. For a description of segments, see Item 4. Information on the Company Profile of Business by Segment. See Note 30 in Item 18. Financial Statements for additional segment information, a discussion of how we prepare our segment information and the reconciliation of segment totals to consolidated financial statement amounts.

Operations in Japan accounted for 75% and 79% of total segment profit in fiscal 2006 and in fiscal 2007, respectively. As of March 31, 2007, ¥6,197,639 million, or 85%, of total segment assets were in Japan.

Overseas Operations accounted for 25% and 21% of total segment profits in fiscal 2006 and in fiscal 2007, respectively. As of March 31, 2007, ¥487,900 million, or 7%, of total segment assets were in The Americas segment, and ¥625,036 million, or 8%, were in Asia, Oceania and Europe segment.

	Year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Segment revenues: (1)</b>				
<b>Operations in Japan</b>				
Corporate Financial Services	¥ 97,683	¥ 123,328	¥ 25,645	26
Automobile Operations	130,775	146,966	16,191	12
Rental Operations	67,066	67,859	793	1
Real Estate-Related Finance	69,472	82,345	12,873	19
Real Estate	198,780	245,336	46,556	23
Life Insurance	137,468	132,060	(5,408)	(4)
Other	111,854	145,443	33,589	30
Subtotal	813,098	943,337	130,239	16
<b>Overseas Operations</b>				
The Americas	70,223	119,940	49,717	71
Asia, Oceania and Europe	88,914	103,593	14,679	17
Subtotal	159,137	223,533	64,396	40
<b>Total</b>	<b>972,235</b>	<b>1,166,870</b>	<b>194,635</b>	<b>20</b>
Difference between Segment Totals and Consolidated Amounts	(42,353)	(24,317)	18,036	(43)
<b>Total consolidated revenues</b>	<b>¥ 929,882</b>	<b>¥ 1,142,553</b>	<b>¥ 212,671</b>	<b>23</b>

(1) Results of discontinued operations are included in segment revenues of each segment.



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	Year ended March 31,		Change	
	2006	2007	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Segment profit: (1)</b>				
<b>Operations in Japan</b>				
Corporate Financial Services	¥ 48,661	¥ 56,873	¥ 8,212	17
Automobile Operations	26,661	28,224	1,563	6
Rental Operations	9,911	10,869	958	10
Real Estate-Related Finance	33,384	44,682	11,298	34
Real Estate	28,650	51,236	22,586	79
Life Insurance	13,212	9,921	(3,291)	(25)
Other	41,657	61,745	20,088	48
Subtotal	202,136	263,550	61,414	30
<b>Overseas Operations</b>				
The Americas	34,701	31,315	(3,386)	(10)
Asia, Oceania and Europe	31,956	37,763	5,807	18
Subtotal	66,657	69,078	2,421	4
Total segment profit	268,793	332,628	63,835	24
Difference between Segment Totals and Consolidated Amounts	(19,024)	(16,554)	2,470	(13)
Total consolidated income before income taxes, minority interests in earnings of subsidiaries, discontinued operations and extraordinary gain	¥ 249,769	¥ 316,074	¥ 66,305	27

- (1) Since the Company evaluates the performance of its segments based on profits before income taxes, tax expenses are not included in segment profits. In addition, results of discontinued operations are included in segment profits of each segment, if any.

	As of March 31,		Change	
	2006	2007	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Segment assets:</b>				
<b>Operations in Japan</b>				
Corporate Financial Services	¥ 1,616,574	¥ 1,846,552	¥ 229,978	14
Automobile Operations	509,149	510,805	1,656	0
Rental Operations	123,532	121,621	(1,911)	(2)
Real Estate-Related Finance	1,223,063	1,517,927	294,864	24
Real Estate	682,166	901,237	219,071	32
Life Insurance	491,857	511,051	19,194	4
Other	668,689	788,446	119,757	18
Subtotal	5,315,030	6,197,639	882,609	17
<b>Overseas Operations</b>				
The Americas	441,285	487,900	46,615	11
Asia, Oceania and Europe	562,654	625,036	62,382	11
Subtotal	1,003,939	1,112,936	108,997	11
Total	6,318,969	7,310,575	991,606	16

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Difference between Segment Totals and Consolidated Amounts	923,486	896,612	(26,874)	(3)
Total consolidated assets	¥ 7,242,455	¥ 8,207,187	¥ 964,732	13

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### ***Operations in Japan***

#### ***Corporate Financial Services***

Segment revenues were up 26% year on year to ¥123,328 million due primarily to the expansion of loans to corporate customers.

Although selling, general and administrative expenses increased as a result of upfront costs associated with an increase in the number of employees as a result of an effort to expand our sales and marketing base, segment profits increased 17% to ¥56,873 million compared to ¥48,661 million in fiscal 2006 due to the increase in segment revenues.

Segment assets increased 14% on March 31, 2006 to ¥1,846,552 million due to an increase in loans to corporate customers.

#### ***Automobile Operations***

Segment revenues increased 12% year on year to ¥146,966 million due to the increase in revenues from operating leases and maintenance services in the automobile leasing operations.

Although selling, general and administrative expenses increased as a result of an increase in the number of employees in an effort to develop our customer base focusing on expanding the automobile-related business to individuals, segment profits increased 6% to ¥28,224 million in line with the increase in segment revenues compared to ¥26,661 million in fiscal 2006.

Although there was an expansion of the automobile leasing operations that also include operating leases, segment assets were flat on March 31, 2006 at ¥510,805 million due to asset securitization.

#### ***Rental Operations***

Segment revenues were up 1% year on year to ¥67,859 million.

Segment profits increased 10% to ¥10,869 million compared to ¥9,911 million in fiscal 2006 due to the recording of gains on reversals of the provision for doubtful receivables and probable loan losses for investment in aircraft leases, despite the recognition of losses on the sale of investment securities.

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Segment assets were down 2% on March 31, 2006 to ¥121,621 million due to a decrease in investment in direct financing leases despite an increase in investment in operating leases.

### ***Real Estate-Related Finance***

Segment revenues increased 19% year on year to ¥82,345 million due to an expansion of revenues associated with corporate loans, including non-recourse loans, and contributions from the loan servicing operations and gains on sales of real estate under operating leases.

Segment profits increased 34% to ¥44,682 million compared to ¥33,384 million in fiscal 2006 due to the increase in segment revenues and a lower provision for doubtful receivables and probable loan losses.

Segment assets increased 24% on March 31, 2006 to ¥1,517,927 million due mainly to the increase in corporate loans, including non-recourse loans.

### ***Real Estate***

Segment revenues increased 23% year on year to ¥245,336 million as more condominiums were sold to buyers in fiscal 2007 compared to fiscal 2006, and due to the increase in revenues associated with real estate

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rental activities, including office buildings, and management operations, including training facilities and golf courses, in addition to contributions from the gains on sales of real estate under operating leases.

Segment profits increased 79% to ¥51,236 million compared to ¥28,650 million in fiscal 2006 due to the increase in segment revenues in addition to contribution from residential condominiums developed through certain joint ventures which were accounted for by the equity method. The number of condominiums sold to buyers included in revenues from real estate sales increased from 2,032 units in fiscal 2006 to 2,194 units in fiscal 2007, and the number of condominiums developed through the aforementioned joint ventures sold to buyers increased from 178 units in fiscal 2006 to 818 units in fiscal 2007.

Segment assets increased 32% on March 31, 2006 to ¥901,237 million due mainly to the expansion of operating assets, including investment in operating leases.

### ***Life Insurance***

Segment revenues were down 4% year on year to ¥132,060 million as a result of lower revenues from life insurance premiums and related investment income compared to fiscal 2006.

Segment profits decreased 25% year on year to ¥9,921 million compared to ¥13,212 million in fiscal 2006 due to lower segment revenues.

Segment assets increased 4% on March 31, 2006 to ¥511,051 million.

### ***Other***

Segment revenues increased 30% year on year to ¥145,443 million due to an increase in gains on investment securities at the venture capital operations, in addition to the gains on the sale of a portion of our shares in Aozora Bank in connection with its listing on the Tokyo Stock Exchange.

Segment profits increased 48% to ¥61,745 million compared to ¥41,657 million in fiscal 2006. While contributions from equity in net income of affiliates, as well as gains on sales of subsidiaries and affiliates under principal investments, and brokerage commissions decreased year on year, the higher segment revenues led to the higher segment profits.

Segment assets increased 18% on March 31, 2006 to ¥788,446 million.

*Overseas Operations*

*The Americas*

Although fiscal 2006 benefited from the gain on the sale of the primary and master servicing business as well as higher gains on sales of real estate under operating leases, segment revenues increased 71% year on year to ¥119,940 million due to the contribution from the beginning of the first quarter of fiscal 2007 of Houlihan Lokey and the increase in revenues associated with corporate loans as well as securities investments.

Segment profits decreased 10% to ¥31,315 million compared to ¥34,701 million in fiscal 2006. Although Houlihan Lokey contributed to profits from the beginning of the first quarter of fiscal 2007, there were no contributions in fiscal 2007 such as the gain on the sale of operations that were recorded in fiscal 2006, in addition to a decrease in equity in net income of affiliates.

Segment assets increased 11% on March 31, 2006 to ¥487,900 million due mainly to an increase in corporate loans.

**Table of Contents***Asia, Oceania and Europe*

Segment revenues were up 17% year on year to ¥103,593 million due to the expansion of the leasing operations that include operating leases such as automobile leasing, as well as the loan servicing operations, in addition to gains on the sale of a business unit in the Oceania region.

Segment profits increased 18% to ¥37,763 million compared to ¥31,956 million in fiscal 2006. While gains on sales of subsidiaries and affiliates decreased year on year, an increase in equity in net income of affiliates as well as the higher segment revenues led to the higher segment profits.

Segment assets were up 11% on March 31, 2006 to ¥625,036 million due mainly to the increase in operating leases and investment in affiliates.

**YEAR ENDED MARCH 31, 2006 COMPARED TO YEAR ENDED MARCH 31, 2005****Performance Summary***Income Statement Data*

	Year ended March 31,		Change	
	2005	2006	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Income statement data:</b>				
Total revenues	¥ 912,027	¥ 929,882	¥ 17,855	2
Total expenses	781,882	714,925	(66,957)	(9)
Operating income	130,145	214,957	84,812	65
Income before income taxes, minority interests in earnings of subsidiaries, discontinued operations and extraordinary gain	153,535	249,769	96,234	63
Net income	91,496	166,388	74,892	82

*Total Revenues:*

	Year ended March 31,		Change	
	2005	2006	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Total revenues:</b>				
Direct financing leases	¥ 86,591	¥ 96,136	¥ 9,545	11
Operating leases	193,079	209,915	16,836	9
Interest on loans and investment securities	133,382	159,727	26,345	20
Brokerage commissions and net gains on investment securities	33,905	48,826	14,921	44
Life insurance premiums and related investment income	137,004	138,118	1,114	1
Real estate sales	123,162	74,943	(48,219)	(39)

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Gains on sales of real estate under operating leases	1,554	8,970	7,416	477
Transportation revenues	55,339		(55,339)	
Other operating revenues	148,011	193,247	45,236	31
<b>Total</b>	<b>¥ 912,027</b>	<b>¥ 929,882</b>	<b>¥ 17,855</b>	<b>2</b>

Total revenues in fiscal 2006 increased 2%. Although revenues from real estate sales and transportation revenues decreased year on year, revenues in other lines increased, especially in interest on loans and investment securities.

Transportation revenues and costs of transportation revenues associated with the operations of Footwork Express Co., Ltd., our former subsidiary, were included in fiscal 2005. However, as a result of our



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reduced ownership share in Footwork Express Co., Ltd., we no longer have a controlling financial interest in the company and began accounting for this company as an equity method affiliate at the end of fiscal 2005. We started recording the proportionate share of net income or loss of the company by the equity method included in equity in net income of affiliates from the beginning of fiscal 2006 rather than separately recording transportation revenues and costs of transportation revenues.

Details of each line item are explained below.

**Total Expenses**

	Year ended March 31,		Change	
	2005	2006	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Total expenses:</b>				
Interest expense	¥ 51,985	¥ 59,168	¥ 7,183	14
Costs of operating leases	122,860	133,979	11,119	9
Life insurance costs	122,896	117,622	(5,274)	(4)
Costs of real estate sales	113,830	65,904	(47,926)	(42)
Costs of transportation revenues	46,594		(46,594)	
Other operating expenses	98,807	123,460	24,653	25
Selling, general and administrative expenses	168,152	185,950	17,798	11
Provision for doubtful receivables and probable loan losses	39,332	16,178	(23,154)	(59)
Write-downs of long-lived assets	11,713	8,336	(3,377)	(29)
Write-downs of securities	4,930	4,540	(390)	(8)
Foreign currency transaction loss (gain), net	783	(212)	(995)	
<b>Total</b>	<b>¥ 781,882</b>	<b>¥ 714,925</b>	<b>¥ (66,957)</b>	<b>(9)</b>

Total expenses in fiscal 2006 decreased 9% due primarily to the decrease in costs of real estate sales and costs of transportation revenues, which was reclassified as equity in net income of affiliates from fiscal 2006 as described above. Details of each line item are explained below.

**Operating Income, Income before Income Taxes, Minority Interests in Earnings of Subsidiaries, Discontinued Operations and Extraordinary Gain and Net Income**

Operating income in fiscal 2006 increased 65% due primarily to increased revenues from interest on loans and investment securities and a decline in provision for doubtful receivables and probable loan losses. Income before income taxes, minority interests in earnings of subsidiaries, discontinued operations and extraordinary gain increased 63% due primarily to the increase in operating income.

Net income in fiscal 2006 increased 82%, which was greater than the increase in income before income taxes, minority interests in earnings of subsidiaries, discontinued operations and extraordinary gain primarily due to a decrease in the effective tax rate. For details, see Note 15 of Item 18. Financial Statements. Basic earnings from continuing operations per share were ¥993.71 in fiscal 2005 and ¥1,695.60 in fiscal 2006. Basic and diluted earnings per share in fiscal 2006 were ¥1,883.89 and ¥1,790.30, respectively, compared to ¥1,087.82 and ¥1,002.18 in fiscal 2005.



**Table of Contents****Operating Assets**

	As of March 31,		Change	
	2005	2006	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Operating assets:</b>				
Investment in direct financing leases	¥ 1,451,574	¥ 1,437,491	¥ (14,083)	(1)
Installment loans	2,386,597	2,926,036	539,439	23
Investment in operating leases	619,005	720,096	101,091	16
Investment in securities	589,271	682,798	93,527	16
Other operating assets	82,651	91,856	9,205	11
<b>Total operating assets</b>	<b>5,129,098</b>	<b>5,858,277</b>	<b>729,179</b>	<b>14</b>
Allowance for doubtful receivables on direct financing leases and probable loan losses	(115,250)	(97,002)	18,248	(16)
<b>Other assets</b>	<b>1,055,105</b>	<b>1,481,180</b>	<b>426,075</b>	<b>40</b>
<b>Total assets</b>	<b>¥ 6,068,953</b>	<b>¥ 7,242,455</b>	<b>¥ 1,173,502</b>	<b>19</b>

Operating assets increased 14% in fiscal 2006 due primarily to an increase in installment loans and investment in operating leases in Japan. Total assets increased 19%, due primarily to an increase in restricted cash, operating assets, investment in affiliates and inventories.

**Shareholders' Equity, ROE, and ROA**

Shareholders' equity grew 31% from March 31, 2005 to ¥953,646 million due primarily to an increase in retained earnings from ¥570,494 million to ¥733,386 million, an increase of ¥25,057 million from the conversion of convertible bonds, and a turnaround from an accumulated other comprehensive loss of ¥1,873 million to accumulated other comprehensive income of ¥27,603 million due mainly to the increase in foreign currency translation adjustments and unrealized gains on investment in securities. For further details, see Note 18 in Item 18. Financial Statements.

While total assets grew 19% compared with the end of fiscal 2005, the substantial growth in shareholders' equity contributed to an improvement in the shareholders' equity ratio from 11.98% to 13.17%. Furthermore, the increase in net income resulted in improved ROE and ROA in fiscal 2006, which rose from 14.17% to 19.80%, and 1.56% to 2.50%, respectively.

**Table of Contents****Details of Operating Results**

The following is a discussion of items in the consolidated statements of income, operating assets in the consolidated balance sheets and other selected financial information. See Item 4. Information on the Company Business Overview.

**Revenues, New Business Volumes and Operating Assets****Direct financing leases**

	As of and for the year ended March 31,		Amount	Change Percent (%)
	2005	2006		
(In millions of yen, except percentage data)				
<b>Direct financing leases:</b>				
Direct financing lease revenues	¥ 86,591	¥ 96,136	¥ 9,545	11
Japan	64,879	71,279	6,400	10
Overseas	21,712	24,857	3,145	14
New receivables added	863,137	888,912	25,775	3
Japan	700,744	707,427	6,683	1
Overseas	162,393	181,485	19,092	12
New equipment acquisitions	767,672	800,802	33,130	4
Japan	607,290	623,360	16,070	3
Overseas	160,382	177,442	17,060	11
Investment in direct financing leases	1,451,574	1,437,491	(14,083)	(1)
Japan	1,183,791	1,107,809	(75,982)	(6)
Overseas	267,783	329,682	61,899	23

Revenues from direct financing leases in fiscal 2006 increased 11%. Revenues from Japanese operations increased 10% in fiscal 2006 due primarily to an expansion of the automobile leasing operations and the contribution from the operations of ORIX Kitakanto Corporation, or ORIX Kitakanto, which entered the ORIX Group during the previous fiscal year. Revenues from overseas operations increased by 14% in fiscal 2006 due primarily to the expansion of the leasing operations in the Asia, Oceania and Europe segment.

The average return we charge on direct financing leases in Japan, calculated on the basis of monthly balances, in fiscal 2006 was 4.97% compared to 4.74% in fiscal 2005. This increase was due primarily to improvement of direct financing lease revenue and the lower level of direct financing leases assets as a result of securitizations. The average return on overseas direct financing leases, calculated on the basis of monthly balances, increased to 9.13% in fiscal 2006 from 8.63% in fiscal 2005, due primarily to higher leasing rates we charged in the United States corresponding to the higher prevailing market interest rates there.

New equipment acquisitions related to direct financing leases increased 4% in fiscal 2006. New equipment acquisitions by Japanese operations increased 3% in fiscal 2006 due primarily to an increase in our automobile leasing operations despite a decrease in acquisition of direct financing lease assets through M&A compared to fiscal 2005 when we acquired ORIX Kitakanto. New equipment acquisitions by overseas operations increased 11% in fiscal 2006 due primarily to increases in the United States.

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Investment in direct financing leases as of March 31, 2006 decreased 1% in fiscal 2006. While assets overseas increased, assets in Japan decreased due to the securitization of lease receivables.

As of March 31, 2006, no single lessee represented more than 1% of our total portfolio of direct financing leases. As of March 31, 2006, 77% of our direct financing leases were to lessees located in Japan, while 8% were to lessees located in the United States.

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	As of March 31,		Change	
	2005	2006	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Investment in direct financing leases by category:</b>				
Information-related and office equipment	¥ 184,540	¥ 175,389	¥ (9,151)	(5)
Industrial equipment	206,182	226,939	20,757	10
Commercial services equipment	190,353	175,712	(14,641)	(8)
Transportation equipment	486,329	530,930	44,601	9
Other equipment	384,170	328,521	(55,649)	(14)
<b>Total</b>	<b>¥ 1,451,574</b>	<b>¥ 1,437,491</b>	<b>¥ (14,083)</b>	<b>(1)</b>

Investment in direct financing leases of information-related and office equipment decreased 5% in fiscal 2006 due primarily to declines in Japan.

Investment in direct financing leases of industrial equipment increased 10% in fiscal 2006 due primarily to increases in the volume of leasing assets in the United States.

Investment in direct financing leases of commercial services equipment decreased 8% in fiscal 2006 due primarily to declines in Japan.

Investment in direct financing leases of transportation equipment increased 9% in fiscal 2006 due primarily to increases in both Japan and overseas.

Balances for investment in direct financing leases in the tables above do not include lease assets sold in securitizations. However, gains from securitization are included in our direct financing lease revenues. During fiscal 2005 and 2006, we sold in securitizations ¥97,177 million and ¥108,973 million, respectively, of direct financing lease assets (all of which were in Japan) that were treated as off-balance sheet assets. Gains from the securitization of these assets of ¥3,877 million and ¥4,733 million were included in direct financing lease revenues for fiscal 2005 and 2006, respectively. The balance of direct financing lease assets treated as off-balance sheet assets amounted to ¥179,905 million as of March 31, 2005 and ¥193,998 million as of March 31, 2006. If assets sold in securitizations were included, the total balance of investment in direct financing lease assets would be ¥1,631,479 million as of March 31, 2005 and ¥1,631,489 million as of March 31, 2006. For more information on securitization, see Note 9 of Item 18. Financial Statements.

*Asset quality of our owned direct financing leases*

	2004	As of March 31, 2005	2006
	(In millions of yen, except percentage data)		
<b>90+ days past-due direct financing leases and allowances for direct financing leases:</b>			
90+ days past-due direct financing leases	¥ 36,568	¥ 25,733	¥ 20,494
90+ days past-due direct financing leases as a percentage of the balance of investment in direct financing leases	2.52%	1.77%	1.43%
	0.87%	0.39%	0.32%

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Provisions as a percentage of average balance of investment in direct financing leases (1)

Allowance for direct financing leases	¥ 41,008	¥	36,264	¥	30,723
Allowance for direct financing leases as a percentage of the balance of investment in direct financing leases	2.82%		2.50%		2.14%

(1) Average balances are calculated on the basis of fiscal quarter-end balances.

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The decrease in 90+ days past-due direct financing leases as of March 31, 2006 occurred due primarily to charge-offs and a decline in new 90+ days past-due direct financing leases in Japan and overseas due primarily to improving economic conditions and our strict credit control.

We believe that the ratio of allowance for doubtful receivables as a percentage of the balance of investment in direct financing leases is a reasonable indication that our allowance for doubtful receivables was adequate as of March 31, 2006 for the following reasons:

lease receivables are generally diversified and the amount of realized loss on any particular contract is likely to be relatively small; and

all lease contracts are collateralized by the underlying leased equipment, and we can expect to recover at least a portion of the outstanding lease receivables by selling the underlying equipment.

The ratio of charge-offs as a percentage of the average balance of investment in direct financing leases was 0.90%, 0.73% and 0.75% for fiscal 2004, 2005 and 2006, respectively.

**Operating leases**

	As of and for the year ended March 31,		Change	
	2005	2006	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Operating leases:</b>				
Operating lease revenues	¥ 193,079	¥ 209,915	¥ 16,836	9
Japan	151,599	158,839	7,240	5
Overseas	41,480	51,076	9,596	23
New equipment acquisitions	248,327	317,645	69,318	28
Japan	201,764	249,829	48,065	24
Overseas	46,563	67,816	21,253	46
Investment in operating leases	619,005	720,096	101,091	16
Japan	466,489	578,221	111,732	24
Overseas	152,516	141,875	(10,641)	(7)

Revenues from operating leases increased 9% in fiscal 2006 due primarily to increased revenues from automobile and real estate operating leases in Japan and revenues from automobile operating leases in the Asia, Oceania and Europe segment. In fiscal 2005 and 2006, gains from the disposition of operating lease assets other than real estate were ¥4,746 million and ¥7,184 million, respectively and are included in operating lease revenues.

New equipment acquisitions of operating leases increased 28% in fiscal 2006 due primarily to an increase in the purchase of rental purpose real estate in Japan.

Investment in operating leases increased 16% in fiscal 2006. In Japan, these investments rose 24% due primarily to an increase in rental purpose real estate and automobile leases. Despite increased investment throughout Asia, Oceania, and Europe, overseas investment declined 7% overall,



impacted by the sale of real estate in the United States.

	As of March 31,		Change	
	2005	2006	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Investment in operating leases by category:</b>				
Transportation equipment	¥ 238,285	¥ 280,615	¥ 42,330	18
Measuring equipment and personal computers	54,461	52,059	(2,402)	(4)
Real estate and other	312,268	371,245	58,977	19
Rental receivables	13,991	16,177	2,186	16
Total	¥ 619,005	¥ 720,096	¥ 101,091	16

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Investment in transportation equipment-related operating leases rose by 18% in fiscal 2006 due primarily to increases in automobile operating leases, while investments in real estate and other operating leases increased 19% due primarily to increases in Japan.

For information on the acquisition cost and accumulated depreciation of operating lease assets, see Note 5 in Item 18. Financial Statements.

**Installment loans and investment securities****Installment loans**

	As of and for the year ended March 31,		Change Amount	Change Percent (%)
	2005	2006		
(In millions of yen, except percentage data)				
<b>Installment loans:</b>				
Interest on installment loans	¥ 123,245	¥ 147,287	¥ 24,042	20
Japan	108,706	126,992	18,286	17
Overseas	14,539	20,295	5,756	40
New loans added	1,545,517	1,834,192	288,675	19
Japan	1,394,494	1,641,382	246,888	18
Overseas	151,023	192,810	41,787	28
Installment loans	2,386,597	2,926,036	539,439	23
Japan	2,153,949	2,655,420	501,471	23
Overseas	232,648	270,616	37,968	16

Interest on installment loans increased 20% in fiscal 2006. Revenues from interest on installment loans in Japan increased 17% due primarily to an expansion of revenues associated with loans to corporate borrowers, including non-recourse loans and the loan servicing operations. Interest on overseas installment loans increased 40% in fiscal 2006 primarily as a result of the contribution from loans to corporate borrowers in the United States.

The average interest rate earned on loans in Japan, calculated on the basis of monthly balances, was relatively flat at 4.90% in fiscal 2006 compared to 4.83% in fiscal 2005. The average interest rate earned on overseas loans, calculated on the basis of monthly balances, increased to 9.23% in fiscal 2006 from 7.40% in fiscal 2005 due primarily to a rise in market interest rates prevailing in Asia, Oceania and Europe.

New loans added increased 19% in fiscal 2006 due primarily to an increase in loans to corporate borrowers in both Japan and overseas.

The balance of installment loans as of March 31, 2006 increased 23% compared to the balance as of March 31, 2005. The balance of installment loans for borrowers in Japan rose by 23% due primarily to increased loans to corporate borrowers including non-recourse loans and the balance of installment loans for overseas borrowers increased 16% due primarily to increased loans to corporate borrowers in the United States and the depreciation of the yen against the dollar.

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As of March 31, 2006, 91% of our installment loans were to borrowers in Japan, while 6% were to borrowers in the United States.

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The table below sets forth the balances as of March 31, 2005 and 2006 of our installment loans to borrowers in Japan and overseas, categorized by the type of borrower (i.e., consumer or corporate) in the case of borrowers in Japan. As of March 31, 2006, ¥129,977 million, or 5%, of our portfolio of installment loans to consumer and corporate borrowers in Japan related to our life insurance operations. We reflected income from these loans in our consolidated statements of income as life insurance premiums and related investment income.

	As of and for the year ended March 31,		Change	
	2005	2006	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Installment loans:</b>				
<b>Consumer borrowers in Japan</b>				
Housing loans	¥ 505,930	¥ 654,171	¥ 148,241	29
Card loans	228,505	318,910	90,405	40
Other	75,353	113,217	37,864	50
Subtotal	809,788	1,086,298	276,510	34
<b>Corporate borrowers in Japan</b>				
Real estate companies	314,534	416,128	101,594	32
Commercial, industrial and other companies	879,624	1,002,076	122,452	14
Subtotal	1,194,158	1,418,204	224,046	19
Total (Japan)	2,003,946	2,504,502	500,556	25
Overseas corporate, industrial and other borrowers	217,883	254,994	37,111	17
Purchased loans (1)	152,125	153,158	1,033	1
Loan origination costs, net	12,643	13,382	739	6
Total	¥ 2,386,597	¥ 2,926,036	¥ 539,439	23

- (1) Purchased loans represent loans with evidence of deterioration of credit quality since origination and for which it is probable at acquisition that collection of all contractually required payments from the debtors is unlikely in accordance with AICPA Statement of Position (SOP) No. 03-3 ( Accounting for Certain Loans or Debt Securities Acquired in a Transfer ) and consist mainly of housing loans, and loans to real estate companies and commercial, industrial and other companies in Japan.

As of March 31, 2006, ¥459,858 million, or 16%, of all installment loans were outstanding to real estate companies and construction companies. Of this amount, ¥14,539 million, or 1% of all installment loans, was loans individually evaluated for impairment. We calculated an allowance of ¥5,408 million to these impaired loans. The remaining outstanding balance represents performing loans or the portion of loans secured by collateral. As of March 31, 2006, we had installment loans outstanding in the amount of ¥265,930 million, or 9% of all installment loans, to companies in the entertainment industry. Of this amount, ¥13,018 million, or 0% of all installment loans, was loans individually evaluated for impairment. We calculated an allowance of ¥3,348 million to these impaired loans. The remaining outstanding balance represents performing loans or the portion of loans secured by collateral.

The balance of loans to consumer borrowers in Japan as of March 31, 2006 increased to ¥1,086,298 million due mainly to an increase in housing loans in Japan because of expansion of our business. In addition, we changed the cardholder membership agreement at the card loan operations so that the balance of certain card loans that were previously accounted for as off-balance sheet assets no longer met the requirements for such accounting treatment and were accounted for as on-balance sheet assets beginning in fiscal 2006. These card loan balances totaled approximately ¥59,000 million as of March 31, 2006.

The balance of loans to corporate borrowers in Japan as of March 31, 2006 rose by 19%, compared to the balance as of March 31, 2005, due primarily to increased demand from corporate borrowers.

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Balances of installment loans in the tables above do not include assets sold in securitizations. However, the amount of interest on installment loans includes gains from the securitization of installment loans. We sold in securitizations ¥58,184 million and ¥76,043 million of installment loans, which were treated as off-balance sheet assets in fiscal 2005 and 2006, respectively. Gains from the securitization of loans of ¥2,115 million and ¥1,776 million were included in interest on installment loans in fiscal 2005 and 2006, respectively. The balance of installment loans treated as off-balance sheet assets amounted to ¥171,295 million and ¥139,511 million as of March 31, 2005 and 2006, respectively. If loans sold in securitizations were included, the total balance of installment loans would be ¥2,557,892 million and ¥3,065,547 million as of March 31, 2005 and 2006, respectively. For more information on securitization, see Note 9 in Item 18. Financial Statements.

*Asset quality of our owned installment loans*

We classify past-due installment loans into two categories: installment loans individually evaluated for impairment and 90+ days past-due loans not individually evaluated for impairment.

	2004	As of March 31, 2005	2006
	(In millions of yen)		
<b>Loans individually evaluated for impairment:</b>			
Impaired loans	¥ 93,542	¥ 86,021	¥ 83,658
Impaired loans requiring a valuation allowance	72,033	67,745	66,543
Valuation allowance (1)	39,187	35,150	31,056

- (1) The valuation allowance is individually evaluated based on the present value of expected future cash flows and the observable market price or the fair value of the collateral securing the loans if the loans are collateral dependent.

In fiscal 2006, a charge-off of impaired loans amounting to ¥12,982 million resulted in a decrease in the outstanding balances of impaired loans as of March 31, 2006. In fiscal 2005, the charge-off of impaired loans amounted to ¥21,809 million.

The table below sets forth the outstanding balances of impaired loans by region and type of borrower. Consumer loans in Japan primarily consist of restructured smaller-balance homogeneous loans individually evaluated for impairment. Such loans increased in fiscal 2005 and fiscal 2006 due to an increase of personal bankruptcies and legal actions that included debt restructuring.

	2004	As of March 31, 2005	2006
	(In millions of yen)		
<b>Impaired loans:</b>			
Consumer borrowers in Japan	¥ 6,638	¥ 10,204	¥ 11,474
Corporate borrowers in Japan			
Real estate companies	22,274	21,126	13,684
Commercial, industrial and other companies	56,084	39,671	37,234
Subtotal	78,358	60,797	50,918
Overseas corporate, industrial and other borrowers	6,319	5,211	4,766
Purchased loans	2,227	9,809	16,500

Total	¥ 93,542	¥ 86,021	¥ 83,658
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The table below sets forth information as to past-due loans which are not individually significant and accordingly are evaluated for impairment as a homogeneous group. Average balances are calculated on the basis of fiscal quarter-end balances.

	2004	As of March 31, 2005	2006
	(In millions of yen, except percentage data)		
<b>90+ days past-due loans and allowance for installment loans:</b>			
90+ days past-due loans not individually evaluated for impairment	¥ 43,176	¥ 26,945	¥ 16,455
90+ days past-due loans not individually evaluated for impairment as a percentage of the balance of installment loans not individually evaluated for impairment	2.02%	1.17%	0.58%
Provisions as a percentage of average balance of installment loans	0.93%	0.73%	0.11%
Allowance for probable loan losses on installment loans exclusive of those loans individually evaluated for impairment	¥ 47,825	¥ 43,836	¥ 35,223
Allowance for probable loan losses on installment loans exclusive of those loans individually evaluated for impairment as a percentage of the balance of installment loans not individually evaluated for impairment	2.23%	1.91%	1.24%

The balance of 90+ days past-due loans not individually evaluated for impairment declined by 39% in fiscal 2006, principally due to charge-offs of ¥12,131 million in fiscal 2006.

	2004	As of March 31, 2005	2006
	(In millions of yen)		
<b>90+ days past-due loans not individually evaluated for impairment:</b>			
Consumer borrowers in Japan			
Housing loans	¥ 37,764	¥ 22,906	¥ 13,221
Card loans and other	4,709	3,468	2,742
Corporate borrowers in Japan			
Overseas corporate, industrial and other borrowers	703	571	492
<b>Total</b>	<b>¥ 43,176</b>	<b>¥ 26,945</b>	<b>¥ 16,455</b>

We make provisions against losses for these homogenous loans by way of general reserves for installment loans included in the allowance for doubtful receivables. We make allowance for housing loans in Japan after careful evaluation of the value of collateral underlying the loans, past loss experience and any economic conditions that we believe may affect the default rate.

We determine the allowance for our card loans and other items on the basis of past loss experience, general economic conditions and the current portfolio composition.

We believe that the level of the allowance as of March 31, 2006 was adequate because we expect to recover a portion of the outstanding balance for 90+ days past-due loans not individually evaluated for impairment primarily because most 90+ days past-due loans are housing loans, which are ordinarily made to a diverse group of individuals who we believe generally have a higher credit rating than the population at-large.



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The ratio of charge-offs as a percentage of the average balance of installment loans was 1.20%, 0.92% and 0.48% for fiscal 2004, 2005 and 2006, respectively.

### *Investment securities*

We maintain a sizable investment in various securities. The largest segment of this portfolio is the investments by our life insurance operations. These constituted approximately 39% of our total investment in securities as of March 31, 2006. These are generally investments in yen-denominated corporate debt. Corporate

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debt securities consist primarily of fixed interest rate instruments. Our portfolio included investments by our US operations in high yield debt securities, totaling ¥65,571 million, and in commercial mortgage-backed securities, totaling ¥57,681 million, each as of March 31, 2006.

	As of March 31, 2005		
	Life insurance	Other operations	Total
(In millions of yen)			
<b>Investment securities:</b>			
Interest-earning securities	¥ 230,221	¥ 106,272	¥ 336,493
Marketable equity securities	2,079	51,970	54,049
Other securities (1)	41,336	157,393	198,729
<b>Total</b>	<b>¥ 273,636</b>	<b>¥ 315,635</b>	<b>¥ 589,271</b>

	As of March 31, 2006		
	Life insurance	Other operations	Total
(In millions of yen)			
<b>Investment securities:</b>			
Interest-earning securities	¥ 209,911	¥ 146,931	¥ 356,842
Marketable equity securities	4,572	70,892	75,464
Other securities (1)	53,795	196,697	250,492
<b>Total</b>	<b>¥ 268,278</b>	<b>¥ 414,520</b>	<b>¥ 682,798</b>

(1) Other securities consist mainly of non-marketable equity securities, preferred capital shares and investment funds.

The balance of our investments in securities other than in connection with our life insurance operations increased to ¥414,520 million as of March 31, 2006 from ¥315,635 million as of March 31, 2005. Interest-earning securities increased due primarily to increased investments in corporate debt securities in Japan, and marketable equity securities increased due primarily to improvement in the Japanese stock market. Other securities increased due primarily to increased investments by our operations in the United States. We present income from investments in separate lines of our consolidated statements of income, depending upon the type of security and whether the security is held in connection with our life insurance operations.

Interest we earn on interest-earning securities held in connection with operations other than life insurance, is reflected in our consolidated statements of income as interest on loans and investment securities. All other non-interest income and losses (other than foreign currency transaction gains or losses and write-downs of securities) we recognize on securities held in connection with operations other than life insurance are reflected in our consolidated statements of income as brokerage commissions and net gains on investment securities. All income and losses (other than write-downs of securities) we recognize on securities held in connection with life insurance operations are reflected in our consolidated statements of income as life insurance premiums and related investment income.

	As of and for the year ended March 31,		Change Amount	Change Percent (%)
	2005	2006		
(In millions of yen, except percentage data)				
<b>Investment securities:</b>				
Interest on investment securities	¥ 10,137	¥ 12,440	¥ 2,303	23

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Japan	1,181	2,203	1,022	87
Overseas	8,956	10,237	1,281	14
New securities added	244,600	235,932	(8,668)	(4)
Japan	230,810	228,121	(2,689)	(1)
Overseas	13,790	7,811	(5,979)	(43)
Investment in securities	589,271	682,798	93,527	16
Japan	467,562	545,796	78,234	17
Overseas	121,709	137,002	15,293	13

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Interest on investment securities other than those held in connection with our life insurance operations increased 23% in fiscal 2006 due primarily to a higher balance of high yield bonds in the United States and a higher balance of securities in Japan. The average interest rate earned on investment securities in Japan, calculated on the basis of monthly balances, was 1.86% in fiscal 2006 compared to 1.45% in fiscal 2005. Rates increased in some degree to steadily upward trend in prevailing market interest rates in Japan. The average interest rate earned on overseas investment securities, calculated on the basis of monthly balances, increased to 8.28% in fiscal 2006 from 6.72% in fiscal 2005 due primarily to a rise in prevailing market interest rates in the United States.

New securities added decreased 4% in fiscal 2006. New securities added in Japan remained flat. New securities added overseas decreased 43% due primarily to declines in the United States.

The balance of our investment in securities as of March 31, 2006 increased 16% compared to fiscal 2005. The balance of our investment in securities in Japan increased 17% due primarily to increases in our operations other than life insurance operations, and the balance of our investment in securities overseas increased 13% due primarily to increases in our US operations.

	As of March 31,		Change	
	2005	2006	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Investment in securities by security type:</b>				
Trading securities	¥ 47,784	¥ 61,971	¥ 14,187	30
Available-for-sale securities	390,542	432,306	41,764	11
Other securities	150,945	188,521	37,576	25
<b>Total</b>	<b>¥ 589,271</b>	<b>¥ 682,798</b>	<b>¥ 93,527</b>	<b>16</b>

Investments in trading securities increased 30% in fiscal 2006 due primarily to increased investments in trading securities in the United States. Investments in available-for-sale securities and other securities increased due primarily to increases in our Japan operations other than life insurance operations. The above table does not include assets sold in securitizations. We sold in securitization ¥24,760 million and ¥2,651 million of investment securities, which were treated as off balance sheet assets in fiscal 2005 and 2006, respectively. Gains from the securitization of investment securities of ¥6,528 million and ¥630 million were included in net gains on investment securities in fiscal 2005 and 2006, respectively. The balance of investment securities treated as off-balance sheet assets amounted to ¥24,760 million and ¥29,460 million in fiscal 2005 and 2006, respectively. If investment securities sold in securitizations were included, the total balance of investment securities would be ¥614,031 million and ¥712,258 million as of March 31, 2005 and 2006, respectively. For more information on securitization, see Note 9 in Item 18. Financial Statements.

For further information on investment in securities, see Note 8 of Item 18. Financial Statements.

**Brokerage commissions and net gains on investment securities**

All non-interest income and losses (other than foreign currency transaction gains or losses and write-downs of securities) that we recognize on securities held in connection with operations other than life insurance are reflected in our consolidated statements of income as brokerage commissions and net gains on investment securities.

	Year ended March 31,		Change	
	2005	2006	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Brokerage commissions and net gains on investment securities:</b>				
Brokerage commissions	¥ 4,516	¥ 8,810	¥ 4,294	95
Net gains on investment securities	29,389	40,016	10,627	36
Total	¥ 33,905	¥ 48,826	¥ 14,921	44

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Brokerage commissions and net gains on investment securities increased 44% in fiscal 2006. Our brokerage commissions increased 95% due primarily to increased activity in the Japanese stock market, while net gains on investment securities increased 36% due primarily to increased net gains on the sale in venture capital operations and investments in funds in Japan.

As of March 31, 2006, gross unrealized gains on available-for-sale securities, including those held in connection with our life insurance operations, were ¥65,571 million, compared to ¥51,627 million as of March 31, 2005. As of March 31, 2006, gross unrealized losses on available-for-sale securities, including those held in connection with our life insurance operations, were ¥4,903 million, compared to ¥4,724 million as of March 31, 2005. These unrealized gains increased due primarily to improvement in the Japanese stock market.

***Life insurance premiums and related investment income***

We reflect all income and losses (other than write-downs of securities and provision for doubtful receivables and probable loan losses) that we recognize on securities, installment loans and other investments held in connection with life insurance operations in our consolidated statements of income as life insurance premiums and related investment income.

	Year ended March 31,		Change	
	2005	2006	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Life insurance premiums and related investment income:</b>				
Life insurance premiums	¥ 125,806	¥ 125,130	¥ (676)	(1)
Life insurance-related investment income	11,198	12,988	1,790	16
Total	¥ 137,004	¥ 138,118	¥ 1,114	1

Life insurance premiums and related investment income increased 1% in fiscal 2006 compared to fiscal 2005. Life insurance premiums of ORIX Life Insurance were almost flat, while life insurance-related investment income increased 16% in fiscal 2006 due primarily to higher interest on investment securities, and others.

	As of March 31,		Change	
	2005	2006	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Investments by ORIX Life Insurance:</b>				
Fixed income securities	¥ 230,221	¥ 209,911	¥ (20,310)	(9)
Marketable equity securities	2,079	4,572	2,493	120
Other securities	41,336	53,795	12,459	30
Total investment in securities	273,636	268,278	(5,358)	(2)
Installment loans and other investments	293,387	223,579	(69,808)	(24)
Total	¥ 567,023	¥ 491,857	¥ (75,166)	(13)

Overall decrease in the investment portfolio is associated with the maturity of some endowment insurance policies.

	Year ended March 31,		Amount	Change Percent (%)
	2005	2006		
<b>Breakdown of life insurance-related investment income:</b>				
<i>(In millions of yen, except percentage data)</i>				
Net gains (losses) on investment securities	¥ (36)	¥ (1,531)	¥ (1,495)	4,153
Interest on loans and investment securities, and others	11,234	14,519	3,285	29
Total	¥ 11,198	¥ 12,988	¥ 1,790	16

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For further information on life insurance operations, see Note 21 of Item 18. Financial Statements.

**Real estate sales**

	Year ended March 31,		Change	
	2005	2006	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Real estate sales:</b>				
Real estate sales	¥ 123,162	¥ 74,943	¥ (48,219)	(39)

Revenues from real estate sales in fiscal 2006 decreased 39%. Although revenues associated with the sales of residential condominiums to buyers increased compared to the previous fiscal year, there were no revenues from the sales of office buildings and other real estate developments this fiscal year although sales had been recorded in the previous fiscal year that amounted to ¥49,569 million.

**Gains on sales of real estate under operating leases:**

	Year ended March 31,		Change	
	2005	2006	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Gains on sales of real estate under operating leases:</b>				
Gains on sales of real estate under operating leases in Japan	¥ 1,554	¥ 8,970	¥ 7,416	477

Gains on sales of real estate under operating leases increased 477% due primarily to the increase in real estate operating leases that were sold but were not included in discontinued operations. Gains recognized under this item refer to gains on sales of real estate under operating leases for which properties we have a significant continuing involvement after sale. Gains for which properties we do not continue to provide services are included in discontinued operations. For discussion of accounting policy for discontinued operations, see Note 1 in Item 18. Financial Statements.

**Other operations**

	Year ended March 31,		Change	
	2005	2006	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Other operations:</b>				
Other operating revenues	¥ 148,011	¥ 193,247	¥ 45,236	31
Japan	144,274	181,007	36,733	25
Overseas	3,737	12,240	8,503	228
Other operating assets	82,651	91,856	9,205	11
Japan	75,156	88,150	12,994	17
Overseas	7,495	3,706	(3,789)	(51)



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Other operating revenues in fiscal 2006 increased 31%, due primarily to the increase in revenues associated with our integrated facilities management operations and fee businesses (mainly loan servicing fees and arrangement fees), as well as the fact that companies in which we invested as part of our corporate rehabilitation business in fiscal 2005 and 2006 made larger contributions in Japan in fiscal 2006 compared to fiscal 2005. In addition, the increase of other operating revenues overseas of ¥8,503 million were mainly attributable to the investment bank Houlihan Lokey that entered the ORIX Group in the fourth quarter of fiscal 2006.

Other operating assets increased 11% to ¥91,856 million mainly reflecting investments made in connection with ORIX's corporate rehabilitation business.

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### ***Expenses***

#### ***Interest expense***

Interest expense increased 14% in fiscal 2006. Compared to fiscal 2005 interest expense increased in Japan due to higher average debt levels, and it also increased overseas due to higher interest rates despite lower average debt levels. Interest expense in overseas segments was ¥24,647 million in fiscal 2006 and ¥19,647 million in fiscal 2005.

The average interest rate on our short-term and long-term debt in Japan, calculated on the basis of monthly balances, was 0.97% in fiscal 2006, compared to 1.03% in fiscal 2005. The average interest rate on our short-term and long-term overseas debt, calculated on the basis of monthly balances, increased to 4.81% in fiscal 2006 from 4.25% in fiscal 2005 due to higher interest rates overseas.

#### ***Costs of operating leases***

Costs of operating leases increased 9% due primarily to the increase in the average balance of investment in operating leases compared to the previous fiscal year.

#### ***Life insurance costs***

Life insurance costs in fiscal 2006 decreased 4%, and margins increased to 15% in fiscal 2006 compared with 10% in fiscal 2005, mainly due to lower insurance payments and other expenses.

#### ***Costs of real estate sales***

Costs of real estate sales for fiscal 2006 decreased 42%, corresponding to decreased revenues from real estate sales during the same period. Margins increased to 12% in fiscal 2006 from 8% in fiscal 2005 due primarily to increased sales of higher margin units in fiscal 2006 compared to fiscal 2005.

#### ***Other operating expenses***

Other operating expenses increased 25%, corresponding to the increase in other operating revenues.

*Selling, general and administrative expenses*

	Year ended March 31,		Change	
	2005	2006	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Selling, general and administrative expenses:</b>				
Personnel expenses	¥ 82,535	¥ 94,399	¥ 11,864	14
Selling expenses	27,596	27,843	247	1
Administrative expenses	54,246	60,423	6,177	11
Depreciation of office facilities	3,775	3,285	(490)	(13)
 Total	 ¥ 168,152	 ¥ 185,950	 ¥ 17,798	 11

Employee salaries and other personnel expenses account for approximately half of selling, general and administrative expenses, and the remaining half consists of general overhead expenses such as rent for office spaces, communication expenses and travel expenses. Selling, general and administrative expenses in fiscal 2006 increased 11% primarily due to three factors: an increase in costs, which were included from the beginning of fiscal 2006, accompanying the increase in the number of consolidated companies that entered the ORIX Group during fiscal 2005; the costs associated with Houlihan Lokey that became part of the ORIX Group in the fourth quarter of fiscal 2006; and the expansion of business scope.

**Table of Contents****Provision for doubtful receivables and probable loan losses**

We make provisions for doubtful receivables and probable loan losses for direct financing leases and installment loans. New provisions for doubtful receivables and probable loan losses in fiscal 2006 decreased 59% as compared to the previous year. Provisions for direct financing leases declined 17% and provisions for loans not individually evaluated for impairment decreased 82% due primarily to improved asset quality in Japan and overseas. Provisions for loans individually evaluated for impairment decreased 51% due primarily to a decline in loans that were newly identified as impaired.

	Year ended March 31,		Change	
	2005	2006	Amount	Percent (%)
(In millions of yen, except percentage data)				
<b>Provision for doubtful receivables on direct financing leases and probable loan losses:</b>				
Beginning balance	¥ 128,020	¥ 115,250	¥ (12,770)	(10)
Direct financing leases	41,008	36,264	(4,744)	(12)
Loans not individually evaluated for impairment	47,825	43,836	(3,989)	(8)
Loans individually evaluated for impairment	39,187	35,150	(4,037)	(10)
Provisions charged to income	39,332	16,178	(23,154)	(59)
Direct financing leases	5,661	4,674	(987)	(17)
Loans not individually evaluated for impairment	16,016	2,803	(13,213)	(82)
Loans individually evaluated for impairment	17,655	8,701	(8,974)	(51)
Charge-offs (net)	(52,650)	(36,131)	16,519	(31)
Direct financing leases	(10,678)	(11,018)	(340)	3
Loans not individually evaluated for impairment	(20,163)	(12,131)	8,032	(40)
Loans individually evaluated for impairment	(21,809)	(12,982)	8,827	(40)
Other (1)	548	1,705	1,157	211
Direct financing leases	273	803	530	194
Loans not individually evaluated for impairment	158	715	557	353
Loans individually evaluated for impairment	117	187	70	60
Ending balance	115,250	97,002	(18,248)	(16)
Direct financing leases	36,264	30,723	(5,541)	(15)
Loans not individually evaluated for impairment	43,836	35,223	(8,613)	(20)
Loans individually evaluated for impairment	35,150	31,056	(4,094)	(12)

(1) Other includes foreign currency translation adjustments and amounts reclassified to discontinued operations.

**Write-downs of long-lived assets**

In accordance with FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we wrote down ¥8,336 million in real estate assets in Japan in fiscal 2006. The properties written down in fiscal 2006 included an office building in Japan, which was reclassified from a corporate asset to an operating asset and for which we wrote down ¥5,038 million as the result of centralization to another main office building.

In accordance with FASB Statement No. 144, an asset is generally deemed to be impaired if the sum of future cash flows is expected to be less than the current carrying value of the asset. If an asset is deemed to be impaired, the value of the asset is written down to estimated fair value. The requirements of FASB Statement No. 144 potentially result in large charges being recorded in a given period as a result of relatively smaller changes in estimated future cash flows. An asset is generally not considered to be impaired so long as its undiscounted estimated future cash flows exceed its carrying value. However, once the undiscounted estimated cash flows are believed to be less than the current carrying value, the

asset is written down to estimated fair value (which is in principle the appraised value). A write-down to estimated fair value prior to a determination of impairment is not permitted.

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Our total investment in long-lived assets as of March 31, 2006 was ¥943,825 million. ¥704,302 million of long-lived assets were included in business segments in Japan, ¥147,726 million were included in overseas business segments, and the remaining assets mainly consist of office facilities that are regarded as corporate assets. Of the long-lived assets in business segments in Japan, ¥461,252 million were in the Real Estate segment. For a breakdown of long-lived assets by segment, see Note 30 of Item 18. Financial Statements.

### ***Write-downs of securities***

Write-downs for fiscal 2006 under review were primarily in connection with securities for venture capital investments. In fiscal 2006, write-downs declined 8% from ¥4,930 million in fiscal 2005 to ¥4,540 million in fiscal 2006.

### ***Foreign currency transaction gain, net***

We recognized a foreign currency transaction net gain in the amount of ¥212 million in fiscal 2006, due primarily to depreciation of the euro against the dollar. For information on the impact of foreign currency fluctuations, see Item 11. Qualitative and Quantitative Disclosures about Market Risk.

### ***Equity in net income of affiliates***

Equity in net income of affiliates in fiscal 2006 increased 60% due primarily to increased contributions from overseas affiliates. Equity in net income of affiliates in fiscal 2006 associated with our residential condominium joint ventures incurred a loss of ¥3,178 million.

For discussion of investment in affiliates, see Note 11 of Item 18. Financial Statements.

### ***Gains on sales of subsidiaries and affiliates and liquidation loss***

Gains on sales of subsidiaries and affiliates and liquidation loss in fiscal 2006 was a net gain of ¥2,732 million, primarily reflecting a gain made on the sale of a subsidiary which was engaged in agency sales of stationery and office equipment. For discussion of investment in affiliates, see Note 11 of Item 18. Financial Statements.

### ***Provision for income taxes***

Provision for income taxes in fiscal 2006 was ¥96,790 million, compared to the provision of ¥67,498 million in fiscal 2005. The increase of ¥29,292 million was due primarily to higher income before income taxes, minority interests in earnings of subsidiaries, discontinued operations

and extraordinary gain. For discussion of income taxes, see Note 15 in Item 18. Financial Statements.

*Minority Interests in Earnings of Subsidiaries*

Minority interests in fiscal 2005 totaled ¥2,456 million. This figure increased 31% year on year to ¥3,221 million in fiscal 2006, following the inclusion of Houlihan Lokey in our scope of consolidation.

*Discontinued operations*

We base disclosure of these transactions on FASB Statement No. 144. Under FASB Statement No. 144, the scope of discontinued operations is broadened to include operating results of any component of an entity with its own identifiable cash flow and in which asset we will cease to have significant continuing involvement. Discontinued operations refer to net income from the sale or disposal by sale of subsidiaries, business units, and real estate under an operating lease in which we no longer have significant continuing involvement. Income from

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discontinued operations, net of applicable tax effect, increased 110% due primarily to a sale of a business unit in the United States and an increase of real estate assets sold in Japan and the United States. For a discussion of discontinued operations, see Note 24 of Item 18. Financial Statements.

**Segment Information**

The following discussion presents segment financial information on a basis currently used regularly by management for evaluating the performance of our business segments and deciding how to allocate resources between them. The reporting segments are identified based on the nature of services for operations in Japan and based on geographic areas for overseas operations. For a description of segments, see Item 4. Information on the Company Profile of Business by Segment. See Note 30 in Item 18. Financial Statements for additional segment information, a discussion of how we prepare our segment information and the reconciliation of segment totals to consolidated financial statement amounts.

Segments in Japan accounted for 79% and 75% of total segment profit in fiscal 2005 and in fiscal 2006, respectively. As of March 31, 2006, ¥5,315,030 million, or 84%, of total segment assets were in Japan.

Segments overseas accounted for 21% and 25% of total segment profits in fiscal 2005 and in fiscal 2006, respectively. As of March 31, 2006, ¥441,285 million, or 7%, of total segment assets were in The Americas, and ¥562,654 million, or 9%, were in Asia, Oceania and Europe.

	Year ended March 31,		Change	
	2005	2006	Amount	Percent (%)
	(In millions of yen, except percentage data)			
<b>Segment revenues:</b>				
<b>Operations in Japan</b>				
Corporate Financial Services	¥ 90,795	¥ 97,683	¥ 6,888	8
Automobile Operations	117,871	130,775	12,904	11
Rental Operations	68,447	67,066	(1,381)	(2)
Real Estate-Related Finance	77,389	69,472	(7,917)	