

ORIX CORP
Form 20-F/A
August 22, 2005
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A

Amendment No. 1

(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, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 001-14856

ORIX KABUSHIKI KAISHA

(Exact name of Registrant as specified in our 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

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- (1) Common stock without par value, or the Shares New York Stock Exchange*
(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

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

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, 2005, 87,388,706 Shares were outstanding, including Shares that
were represented by 2,258,320 ADSs outstanding as of March 31, 2005.

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 which financial statement item the Registrant has elected to follow.

Item 17 Item 18

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

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EXPLANATORY NOTE

ORIX Corporation is filing this Form 20-F/A to:

(1) amend the table labeled "NYSE PRICE PER ADS" on page 125 in Item 9. The Offer and Listing of the Form 20-F for the fiscal year ended March 31, 2005 filed on July 14, 2005, to delete the word "(thousands)" from under the column heading "Average daily trading volume (shares)"; and

(2) amend the heading of the second table set forth under the text "Long-term debt at March 31, 2004 and 2005 consists of the following:" on page F-38 in Item 18. Financial Statements to read "March 31, 2005".

With the exception of the foregoing amendments, no part of the Annual Report on Form 20-F for the fiscal year ended March 31, 2005 filed on July 14, 2005 is being amended, and the filing of this Form 20-F/A should not be understood to mean that any other statements contained therein are true or complete as of any date subsequent to July 14, 2005. This Form 20-F/A is incorporated by reference into the registration statement of ORIX Corporation on Form F-3, File No. 333-109736, and into the prospectus that forms a part of that registration statement.

Table of Contents**Item 9. The Offer and Listing****TOKYO STOCK EXCHANGE**

The primary market for the Shares is the Tokyo Stock Exchange. The Shares have been traded on the First Section of the Tokyo Stock Exchange since 1973 and are also listed on the First Section of The Osaka Securities Exchange. The Shares were delisted from the Nagoya Stock Exchange on October 23, 2004.

The Tokyo Stock Exchange is the principal Japanese stock exchange. The most widely followed price index of stocks on the Tokyo Stock Exchange is the Nikkei Stock Average, an index of 225 selected stocks traded on the First Section of the Tokyo Stock Exchange.

The following table shows the reported high and low sales prices of the Shares on the Tokyo Stock Exchange, excluding off-floor transactions. High and low sales price quotations from the Tokyo Stock Exchange have been translated in each case into dollars per ADS at the Federal Reserve Bank of New York's noon buying rate on the relevant date or the noon buying rate on the next business day if the relevant date is not a business day.

TOKYO STOCK EXCHANGE PRICE SHARE

	Price per Share		Translated into dollars per ADS	
	High	Low	High	Low
Year ended March 31, 2001	¥ 16,980	¥ 8,600	\$ 81	\$ 35
Year ended March 31, 2002	13,330	8,820	56	38
Year ended March 31, 2003	11,490	5,650	46	24
Year ended March 31, 2004	12,550	4,850	59	20
First fiscal quarter	6,940	4,850	29	20
Second fiscal quarter	8,930	6,660	40	28
Third fiscal quarter	10,030	7,590	46	35
Fourth fiscal quarter	12,550	8,790	59	42
Year ended March 31, 2005	14,790	9,950	71	44
First fiscal quarter	12,940	9,950	60	44
Second fiscal quarter	12,580	10,780	58	49
Third fiscal quarter	13,920	11,140	67	52
Fourth fiscal quarter	14,790	12,970	71	62
Year ending March 31, 2006				
First fiscal quarter	16,800	13,330	76	63
Recent six months				
January 2005	14,020	13,330	67	65
February 2005	13,850	12,970	66	62
March 2005	14,790	13,450	71	64
April 2005	14,870	13,330	69	63

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May 2005	15,990	14,200	74	68
June 2005	16,800	15,450	76	72

In May 2000, ORIX implemented the subdivision of each of common stock registered on its register of shareholders as of March 31, 2000 into 1.2 Shares. The per-share prices set forth above have not been adjusted to reflect that subdivision.

Table of Contents**NEW YORK STOCK EXCHANGE**

The ADSs are listed on the New York Stock Exchange under the symbol IX.

Two ADSs represent one share. On March 31, 2005, approximately 2,258,320 ADSs were outstanding. This is equivalent to 1,129,160 or approximately 1.3% of the total number of Shares outstanding on that date. On that date, ADSs were held by 3 record holders, including 2 record holders in the United States holding 2,258,080 ADSs. The per ADS prices below were not adjusted as a result of the share subdivision mentioned above.

The following table provides the high and low closing sales prices and the average daily trading volume of the ADSs on the New York Stock Exchange based on information provided by Bloomberg L.P.

NYSE PRICE PER ADS

	High	Low	Average daily trading volume (shares)
	<u> </u>	<u> </u>	<u> </u>
Year ended March 31, 2001	\$ 78.25	\$ 37.30	7,701
Year ended March 31, 2002	54.85	36.55	3,037
Year ended March 31, 2003	45.31	25.05	3,030
Year ended March 31, 2004	57.60	20.70	3,798
First fiscal quarter	29.00	20.70	3,276
Second fiscal quarter	39.60	28.36	3,645
Third fiscal quarter	45.35	35.00	4,031
Fourth fiscal quarter	57.60	41.90	4,245
Year ended March 31, 2005	71.75	44.05	4,702
First fiscal quarter	58.15	44.05	6,068
Second fiscal quarter	57.50	49.88	3,266
Third fiscal quarter	68.60	51.79	2,838
Fourth fiscal quarter	71.75	61.70	6,756
Year ending March 31, 2006			
First fiscal quarter	76.80	64.49	5,378
Recent six months			
January 2005	68.65	64.59	6,710
February 2005	67.16	61.70	8,863
March 2005	71.75	64.27	4,977
April 2005	68.80	64.49	6,438
May 2005	72.70	69.39	3,862
June 2005	76.80	71.85	5,814

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Item 18. Financial Statements

See pages F-1 through F-71.

The following consolidated financial statements of ORIX listed below and the report thereon by its independent registered public accounting firm are filed as part of this Form 20-F:

- (a) Consolidated Balance Sheets as of March 31, 2004 and 2005 (page F-4)
- (b) Consolidated Statements of Income for the years ended March 31, 2003, 2004 and 2005 (page F-5)
- (c) Consolidated Statements of Shareholders' Equity for the years ended March 31, 2003, 2004 and 2005 (page F-6)
- (d) Consolidated Statements of Cash Flows for the years ended March 31, 2003, 2004 and 2005 (page F-7)
- (e) Notes to Consolidated Financial Statements (page F-8 to F-70)
- (f) Schedule II. Valuation and Qualifying Accounts and Reserves (page F-71)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of ORIX Corporation:

We have audited the accompanying consolidated balance sheets of ORIX Corporation (a Japanese corporation) and its subsidiaries as of March 31, 2004 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 2005. In connection with our audits of the consolidated financial statements, we have also audited financial statement Schedule II. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ORIX Corporation and its subsidiaries as of March 31, 2004 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, as of April 1, 2002, the Company and its subsidiaries changed the accounting for unamortized deferred credits and goodwill resulting from prior business combinations and equity method investments.

The accompanying consolidated financial statements as of and for the year ended March 31, 2005 have been translated into United States dollars solely for the convenience of the readers. We have recomputed the translation, and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 (ab).

KPMG AZSA & Co.

Tokyo, Japan

May 18, 2005

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AS OF MARCH 31, 2004 AND 2005

ORIX Corporation and its Subsidiaries

	Millions of yen		Millions of U.S. dollars
	2004	2005	2005
Assets			
Cash and cash equivalents	¥ 152,235	¥ 145,380	\$ 1,354
Restricted cash	35,621	53,193	495
Time deposits	677	8,678	81
Investment in direct financing leases	1,453,575	1,451,574	13,517
Installment loans	2,234,940	2,386,597	22,224
Allowance for doubtful receivables on direct financing leases and probable loan losses	(128,020)	(115,250)	(1,073)
Investment in operating leases	536,702	619,005	5,764
Investment in securities	551,928	589,271	5,487
Other operating assets	72,049	82,651	770
Investment in affiliates	157,196	274,486	2,556
Other receivables	142,711	160,263	1,492
Inventories	121,441	113,203	1,054
Prepaid expenses	44,139	45,082	420
Office facilities	71,196	65,410	609
Other assets	178,567	189,410	1,763
	<u>¥ 5,624,957</u>	<u>¥ 6,068,953</u>	<u>\$ 56,513</u>
Liabilities and shareholders equity			
Short-term debt	¥ 903,916	¥ 947,871	\$ 8,826
Deposits	292,545	336,588	3,134
Trade notes, accounts payable and other liabilities	279,852	270,737	2,521
Accrued expenses	96,668	95,407	888
Policy liabilities	592,782	550,880	5,130
Income taxes:			
Current	31,703	24,252	226
Deferred	122,234	155,607	1,449
Deposits from lessees	78,491	98,415	917
Long-term debt	2,662,719	2,861,863	26,649
	<u>5,060,910</u>	<u>5,341,620</u>	<u>49,740</u>
Commitments and contingent liabilities			
Shareholders equity:			
Common stock:			
Authorized 259,000,000 shares			
Issued 84,366,314 shares in 2004 and 87,996,090 shares in 2005	52,068	73,100	681
Additional paid-in capital	70,015	91,045	848
Retained earnings:			

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Legal reserve	2,220	2,220	21
Retained earnings	481,091	570,494	5,312
Accumulated other comprehensive loss	(33,141)	(1,873)	(17)
Treasury stock, at cost:			
675,307 shares in 2004 and 607,384 shares in 2005	(8,206)	(7,653)	(72)
	<u>564,047</u>	<u>727,333</u>	<u>6,773</u>
	<u>¥ 5,624,957</u>	<u>¥ 6,068,953</u>	<u>\$ 56,513</u>

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

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CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED MARCH 31, 2003, 2004 AND 2005

ORIX Corporation and its Subsidiaries

	Millions of yen			Millions of dollars
	2003	2004	2005	2005
Revenues:				
Direct financing leases	¥ 122,928	¥ 112,372	¥ 113,514	\$ 1,057
Operating leases	159,807	166,587	181,808	1,693
Interest on loans and investment securities	131,590	116,744	136,035	1,267
Brokerage commissions and net gains on investment securities	10,857	26,025	33,906	316
Life insurance premiums and related investment income	138,439	134,154	137,004	1,276
Real estate sales	71,165	98,034	123,162	1,147
Gains on sales of real estate under operating leases	3,257	9,116	1,554	14
Transportation revenues			55,339	515
Other operating revenues	80,847	93,638	134,628	1,254
Total revenues	718,890	756,670	916,950	8,539
Expenses:				
Interest expense	71,380	60,060	56,562	527
Costs of operating leases	117,362	120,566	124,658	1,161
Life insurance costs	125,684	119,653	122,896	1,144
Costs of real estate sales	60,769	88,679	113,830	1,060
Costs of transportation revenues			46,594	434
Other operating expenses	41,319	52,551	82,833	771
Selling, general and administrative expenses	144,271	161,835	181,620	1,692
Provision for doubtful receivables and probable loan losses	54,706	49,592	39,574	369
Write-downs of long-lived assets	50,682	12,345	11,713	109
Write-downs of securities	14,325	5,240	4,930	46
Foreign currency transaction loss, net	1,211	1,577	783	7
Total expenses	681,709	672,098	785,993	7,320
Operating income	37,181	84,572	130,957	1,219
Equity in net income of affiliates	6,203	17,924	20,043	187
Gains (losses) on sales of affiliates	2,002	(542)	3,347	31
Income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes	45,386	101,954	154,347	1,437
Provision for income taxes	20,808	51,444	68,826	641
Income from continuing operations	24,578	50,510	85,521	796
Discontinued operations:				
Income from discontinued operations, net (including gains on sales of ¥3,747 million in fiscal 2004 and ¥9,964 million in fiscal 2005)	902	4,916	10,037	93
Provision for income taxes	(388)	(2,015)	(4,062)	(37)
Discontinued operations, net of applicable tax effect	514	2,901	5,975	56
Income before extraordinary gain and cumulative effect of a change in accounting principle	25,092	53,411	91,496	852

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Extraordinary gain, net of applicable tax effect	3,214	609		
Cumulative effect of a change in accounting principle net of applicable tax effect	1,937			
Net income	¥ 30,243	¥ 54,020	¥ 91,496	\$ 852

Yen

Dollars

Amounts per share of common stock:

Basic:

Income from continuing operations	¥ 293.74	¥ 603.58	¥ 1,016.78	\$ 9.47
Discontinued operations	6.14	34.67	71.04	0.66
Extraordinary gain	38.41	7.27		
Cumulative effect of a change in accounting principle	23.15			
Net income	361.44	645.52	1,087.82	10.13

Diluted:

Income from continuing operations	277.27	563.39	937.70	8.73
Discontinued operations	5.77	31.47	64.48	0.60
Extraordinary gain	36.14	6.60		
Cumulative effect of a change in accounting principle	21.77			
Net income	340.95	601.46	1,002.18	9.33
Cash dividends	15.00	25.00	25.00	0.23

The accompanying notes to consolidated financial statements are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
FOR THE YEARS ENDED MARCH 31, 2003, 2004 AND 2005

ORIX Corporation and its Subsidiaries

	Millions of yen			Millions of dollars
	2003	2004	2005	2005
	_____	_____	_____	_____
Common stock:				
Beginning balance	¥ 51,854	¥ 52,067	¥ 52,068	\$ 485
Exercise of warrants, stock acquisition rights and stock options	213	1	1,032	10
Conversion of convertible bond			20,000	186
Ending balance	52,067	52,068	73,100	681
Additional paid-in capital:				
Beginning balance	69,823	70,002	70,015	652
Exercise of warrants, stock acquisition rights and stock options	211	8	1,031	10
Conversion of convertible bond			19,999	186
Other, net	(32)	5		
Ending balance	70,002	70,015	91,045	848
Legal reserve:				
Beginning balance	2,220	2,220	2,220	21
Ending balance	2,220	2,220	2,220	21
Retained earnings:				
Beginning balance	400,175	429,163	481,091	4,480
Cash dividends	(1,255)	(2,092)	(2,093)	(20)
Net income	30,243	54,020	91,496	852
Ending balance	429,163	481,091	570,494	5,312
Accumulated other comprehensive income (loss):				
Beginning balance	(13,440)	(39,747)	(33,141)	(308)
Net change of unrealized gains on investment in securities	(12,839)	23,131	15,102	141
Net change of minimum pension liability adjustments	2,652	(3,785)	6,877	64
Net change of foreign currency translation adjustments	(15,119)	(15,710)	6,019	56
Net change of unrealized losses on derivative instruments	(1,001)	2,970	3,270	30
Ending balance	(39,747)	(33,141)	(1,873)	(17)
Treasury stock:				
Beginning balance	(8,124)	(8,247)	(8,206)	(77)

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Exercise of stock options	8	202	805	7
Other, net	(131)	(161)	(252)	(2)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Ending balance	(8,247)	(8,206)	(7,653)	(72)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total shareholders equity				
Beginning balance	502,508	505,458	564,047	5,253
Increase, net	2,950	58,589	163,286	1,520
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Ending balance	¥ 505,458	¥ 564,047	¥ 727,333	\$ 6,773
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Summary of comprehensive income:				
Net income	¥ 30,243	¥ 54,020	¥ 91,496	\$ 852
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other comprehensive income (loss)	(26,307)	6,606	31,268	291
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Comprehensive income	¥ 3,936	¥ 60,626	¥ 122,764	\$ 1,143
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2003, 2004 AND 2005

ORIX Corporation and its Subsidiaries

	Millions of yen			Millions of dollars
	2003	2004	2005	2005
	¥	¥	¥	\$
Cash flows from operating activities:				
Net income	30,243	54,020	91,496	852
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	118,097	121,530	132,158	1,231
Provision for doubtful receivables and probable loan losses	54,706	49,592	39,574	369
Increase (decrease) in policy liabilities	5,889	(15,771)	(41,902)	(390)
Deferred tax provision (benefit)	(23,222)	(2,881)	15,533	145
Gains from securitization transactions	(9,649)	(446)	(12,520)	(117)
Equity in net income of affiliates	(6,203)	(17,924)	(20,043)	(187)
(Gains) losses on sales of affiliates	(2,002)	542	(3,347)	(31)
Extraordinary gain	(3,214)	(609)		
Cumulative effect of a change in accounting principle	(1,937)			
Gains on sales of available-for-sale securities	(7,588)	(8,728)	(14,761)	(137)
Gains on sales of real estate under operating lease	(3,257)	(9,116)	(1,554)	(14)
Gains on sales of operating lease assets other than real estate	(4,424)	(2,783)	(4,746)	(44)
Write-downs of long-lived assets	50,682	12,345	11,713	109
Write-downs of securities	14,325	5,240	4,930	46
Decrease (increase) in restricted cash	1,195	(17,393)	(17,517)	(163)
Increase in trading securities	(5,730)	(4,831)	(21,430)	(200)
Increase in inventories	(21,894)	(18,197)	(21,906)	(204)
Increase in prepaid expenses	(2,975)	(1,974)	(975)	(9)
Increase (decrease) in accrued expenses	(2,370)	7,481	8,255	77
Increase in deposits from lessees	4,303	683	19,567	182
Other, net	25,175	2,032	(36,058)	(337)
Net cash provided by operating activities	210,150	152,812	126,467	1,178
Cash flows from investing activities:				
Purchases of lease equipment	(923,483)	(873,248)	(942,489)	(8,777)
Principal payments received under direct financing leases	742,183	731,702	633,724	5,901
Net proceeds from securitization of lease receivables, loan receivables and securities	239,050	35,704	191,976	1,788
Installment loans made to customers	(1,214,672)	(1,130,986)	(1,545,297)	(14,390)
Principal collected on installment loans	1,071,841	1,092,698	1,287,144	11,986
Proceeds from sales of operating lease assets	62,323	116,531	73,928	688
Investment in and dividends received from affiliates, net	(23,208)	5,822	(48,257)	(449)
Proceeds from sales of investment in affiliates	2,232		14,327	133
Purchases of available-for-sale securities	(193,580)	(90,527)	(219,890)	(2,048)
Proceeds from sales of available-for-sale securities	264,021	164,860	127,452	1,187
Maturities of available-for-sale securities	95,187	88,601	82,373	767
Purchases of other securities	(23,674)	(32,707)	(24,283)	(226)
Proceeds from sales of other securities	21,413	12,648	11,456	107
Purchases of other operating assets	(2,847)	(8,966)	(9,216)	(86)
Proceeds from sales of other operating assets	63,596	10,468	3,539	33
Acquisitions of subsidiaries, net of cash acquired	(13,669)	(8,861)	(12,506)	(116)
Sales of subsidiaries, net of cash disposed	36,469	24		

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Other, net	(20,232)	10,215	(31,985)	(297)
Net cash provided by (used in) investing activities	182,950	123,978	(408,004)	(3,799)
Cash flows from financing activities:				
Net increase (decrease) in debt with maturities of three months or less	(210,544)	50,109	(34,227)	(319)
Proceeds from debt with maturities longer than three months	2,262,069	1,640,244	1,934,048	18,010
Repayment of debt with maturities longer than three months	(2,624,803)	(2,051,777)	(1,665,050)	(15,505)
Net increase in deposits due to customers	37,224	30,078	44,043	410
Issuance of common stock	392	8	2,052	19
Dividends paid	(1,255)	(2,092)	(2,093)	(19)
Net increase (decrease) in call money	(5,000)	5,000	(5,000)	(46)
Other, net	(123)	146	570	5
Net cash provided by (used in) financing activities	(542,040)	(328,284)	274,343	2,555
Effect of exchange rate changes on cash and cash equivalents	(1,131)	(948)	339	2
Net decrease in cash and cash equivalents	(150,071)	(52,442)	(6,855)	(64)
Cash and cash equivalents at beginning of year	354,748	204,677	152,235	1,418
Cash and cash equivalents at end of year	¥ 204,677	¥ 152,235	¥ 145,380	\$ 1,354

The accompanying notes to consolidated financial statements are an integral part of these statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ORIX Corporation and its Subsidiaries

1. Significant Accounting and Reporting Policies

In preparing the accompanying consolidated financial statements, ORIX Corporation (the Company) and its subsidiaries have complied with accounting principles generally accepted in the United States of America (US GAAP), modified for the accounting for stock splits (see (o)). Significant accounting and reporting policies are summarized as follows:

(a) Basis of presenting financial statements

The Company and its domestic subsidiaries maintain their books in conformity with Japanese accounting practices, which differ in certain respects from US GAAP.

The accompanying consolidated financial statements have been prepared in conformity with US GAAP and, therefore, reflect certain adjustments to these companies' books and records. The principal adjustments relate to accounting for direct financing leases, use of the straight-line method of depreciation for operating lease equipment, deferral of life insurance policy acquisition cost, calculation of policy liabilities, accounting for derivative instruments and hedging activities, accounting for goodwill and intangible assets resulting from business combinations, accounting for pension plans, and a reflection of the income tax effect on such adjustments and reclassification of discontinued operations.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Investments in affiliates, where the Company has the ability to exercise significant influence by way of 20%–50% ownership or other means, are accounted for by using the equity method. A lag period of up to three months is used on a consistent basis when considered necessary and appropriate for recognizing the results of subsidiaries and affiliates.

The consolidated financial statements also include variable interest entities to which the Company and its subsidiaries are primary beneficiaries pursuant to FASB Interpretation No. 46 (revised December 2003) (FIN 46(R)) (Consolidation of Variable Interest Entities).

All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company has identified seven areas where it believes assumptions and estimates are particularly critical to the financial statements. These are the determination and periodic reassessment of the unguaranteed residual value for direct financing leases and operating leases (see (e)), the determination and reassessment of insurance policy liabilities and deferred policy acquisition costs (see (f)), the determination of the allowance for doubtful receivables on direct financing leases and probable loan losses (see (g)), the determination of impairment of long-lived assets (see (h)) and goodwill (see (w)), the determination of impairment of investment in securities (see (i)), the determination of valuation allowance for deferred tax assets (see (j)), and the determination of benefit obligation and net periodic pension cost (see (m)).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

(d) Foreign currencies translation

The Company and its subsidiaries maintain their accounting records in their functional currency. Transactions in foreign currencies are recorded in the entity's functional currency based on the prevailing exchange rates on the transaction date.

The financial statements of foreign subsidiaries and affiliates are translated into Japanese yen by applying the exchange rates in effect at the end of each fiscal year to all assets and liabilities. Income and expenses are translated at the average rates of exchange prevailing during the fiscal year. The currencies in which the operations of the foreign subsidiaries and affiliates are conducted are regarded as the functional currencies of these companies. Foreign currency translation adjustments reflected in accumulated other comprehensive income (loss) in shareholders' equity are from the translation of foreign currency financial statements into Japanese yen.

(e) Recognition of revenues

Direct financing leases Direct financing leases consist of full-payout leases for various equipment types, including office equipment, industrial machinery and transportation equipment (aircraft, vessels and automobiles). The excess of aggregate lease rentals plus the estimated unguaranteed residual value over the cost of the leased equipment constitutes the unearned lease income to be taken into income over the lease term. The estimated residual values represent estimated proceeds from the disposition of equipment at the time the lease is terminated. Estimates of unguaranteed residual values are based on current market values of used equipment and estimates of when and how much equipment will become obsolete. Certain direct lease origination costs (initial direct costs) are being deferred and amortized over the lease term as a yield adjustment. The unamortized balance of initial direct costs is reflected as a component of investment in direct financing leases. Amortization of unearned lease income and initial direct cost is computed using the interest method.

Installment loans Interest income on installment loans is recognized on an accrual basis. Certain direct loan origination costs, offset by loan origination fees (loan origination costs, net), are being deferred and amortized over the contractual term of the loan as an adjustment of the related loan's yield using the interest method.

Interest payments received on impaired loans are recorded as interest income unless the collection of the remaining investment is doubtful at which time payments received are recorded as reductions of principal (see Note 7).

Non-accrual policy Revenues on direct financing leases and installment loans are no longer accrued at the time when principal or interest become past due 90 days or more, or earlier, if management believes their collectibility is doubtful. The Company and its subsidiaries used 180 days for suspending recognition of income prior to fiscal 2003. This change from 180 to 90 days did not have a significant effect on the Company and its subsidiaries' results of operations or financial position. Accrued but uncollected interest is reclassified to investment in direct

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financing leases or installment loans in the accompanying consolidated balance sheet and becomes subject to the allowance for doubtful receivables and probable loan loss process. Cash repayments received on these accounts are applied first against any amounts due until qualifying for a return to accrual status and then any surpluses are recorded as income.

Operating leases Revenues from operating leases are recognized on a straight-line basis over the contract terms. Operating lease assets are recorded at cost and are depreciated over their estimated useful lives mainly on a straight-line basis. Estimated average useful lives of principal operating lease assets classified as transportation equipment is 8 years, as measuring equipment and personal computers is 4 years, and as real estate is 25 years.

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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****ORIX Corporation and its Subsidiaries**

Depreciation costs are included in costs of operating leases. Gains or losses arising from dispositions of operating lease assets, except real estate operating leases, are included in operating lease revenues. With respect to some sales of formerly leased real estate such as commercial buildings or residential condominiums, the Company or its subsidiaries may retain an interest in some cash flows from the real estate in the form of property management or other participation in performance of the lease asset. Where the Company or its subsidiaries have continuing involvement with the cash flows from disposal of such previously leased real estate, the gains or losses arising from such disposition are separately disclosed as Gains on sales of real estate under operating leases whereas if the Company or its subsidiaries have no continuing involvement with the cash flows from such disposed real estate gains or losses are reported as Discontinued operations-Income from discontinued operations, net. Estimates of residual values are based on current market values of used equipment and estimates of when and how much equipment will become obsolete.

Brokerage commissions and net gains on investment securities Brokerage commissions and net gains on investment securities are recorded on a trade date basis.

Real estate sales Revenues from the sales of real estate are recognized when a contract is in place, a closing has taken place, the buyer's initial and continuing investment is adequate to demonstrate a commitment to pay for the property and the Company and its subsidiaries do not have a substantial continuing involvement in the property.

(f) Insurance premiums and expenses

Premium income from life insurance policies are recognized as earned premiums when due.

Life insurance benefits are recorded as expenses when they are incurred. Policy liabilities for future policy benefits are established for by the net level premium method, based on actuarial estimates of the amount of future policyholder benefits. The policies are characterized as long-duration policies and mainly consist of endowments, term life insurance and whole life 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 average rates of assumed investment yields are 2.0%, 1.7% and 1.6% for fiscal 2003, 2004 and 2005, respectively. The Company 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.

FASB Statement No. 60 (Accounting and Reporting by Insurance Enterprises) requires insurance companies to defer certain costs associated with writing insurances (deferred policy acquisition costs) and amortize 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. Amortization charged to income for fiscal 2003, 2004 and 2005 amounted to ¥11,740 million, ¥10,017 million and ¥10,359 million (\$96 million), respectively.

(g) 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 is maintained at a level which, in the judgment of management, is adequate to provide for probable losses inherent in lease and loan portfolios. The allowance is increased by provisions charged to income and is decreased by charge-offs, net of recoveries.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

Developing the allowance for doubtful receivables on direct financing leases and probable loan losses is subject to numerous estimates and judgments. In evaluating the adequacy of the allowance, management considers various factors, including the nature and characteristics of the obligor, current economic conditions, credit concentrations or deterioration in pledged collateral, historical loss experience, delinquencies and future cash flows expected to be received. Generally, large-balance non-homogeneous loans are individually assessed whether each of the loans is impaired. If a loan is deemed to be impaired, it is evaluated based on the present value of expected future cash flows or the fair value of the collateral securing the loan if the loan is collateral dependent. Smaller-balance homogeneous loans and lease receivables are collectively evaluated considering current economic conditions and trends, prior charge-off experience for each category of collateralized receivables and uncollateralized receivables, delinquencies and non-accruals.

Receivables are charged off when, in the opinion of management, the likelihood of any future collection is believed to be minimal. The Company and its subsidiaries do not have a practice of charging loans off after they are past due for a specific arbitrary period, for example, six months or one year.

(h) Impairment of long-lived assets

Effective April 1, 2002, the Company and its subsidiaries adopted FASB Statement No. 144 (Accounting for the Impairment or Disposal of Long-Lived Assets). FASB Statement No. 144 superseded FASB Statement No. 121 (Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of). Under FASB Statement No. 144, impairment losses are recorded with respect to long-lived assets used in operations, consisting primarily of real estate development projects, golf courses and other operating assets, when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. The net carrying value of assets not recoverable is reduced to fair value if lower than the carrying value. In determining fair value, appraisals prepared by independent third party appraisers or the Company's own staff of appraisers, based on recent transactions involving sales of similar assets or other valuation techniques to estimate fair value are utilized.

(i) Investment in securities

Trading securities are reported at fair value with unrealized gains and losses included in income.

Available-for-sale securities are reported at fair value, and unrealized gains or losses are recorded through other comprehensive income (loss), net of applicable income taxes.

Held-to-maturity securities are recorded at amortized cost.

Generally, the Company and its subsidiaries recognize losses related to available-for-sale securities and held-to-maturity securities for which the market price has been significantly below the acquisition cost (or current carrying value if an adjustment has been made in the past) for more than six months. In addition, the Company and its subsidiaries recognize losses related to available-for-sale securities and held-to-maturity securities in certain other situations. In determining whether the decline in the market value of a debt security is other than temporary, the Company and its subsidiaries consider whether there has been a significant deterioration in a bond issuer's credit rating, an issuer's default or a similar event. Moreover, the Company and its subsidiaries charge against income losses related to equity securities in situations where, even though the market value has not remained significantly below the carrying value for six months, the decline in the market value of an equity security is based on 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. For financial periods prior to the quarter ended March 31, 2003, the period used for considering whether impairment was other than temporary was twelve months.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

(j) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

(k) Securitized assets

The Company and its subsidiaries have securitized and sold to investors certain lease receivables, loan receivables and investment in securities. In the securitization process, the assets to be securitized (the assets) are sold to special-purpose entities that issue asset-backed securities to the investors. The Company and its subsidiaries account for the sale when control over the assets is surrendered. When the Company and its subsidiaries sell the assets in a securitization transaction, the carrying value of the assets is allocated to the portion retained and the portion sold, based on relative fair values. The Company and its subsidiaries recognize gains or losses for the difference between the net proceeds received and the allocated carrying value of the assets sold. Any gain or loss from a securitization transaction is recorded as revenue of direct financing leases, interest on loans and investment securities, or brokerage commissions and net gains on investment securities.

Retained interests include senior interests, subordinated interests, servicing assets, excess spread assets and cash collateral. Retained interests are initially recorded at allocated carrying value of the assets based on their fair value and are periodically reviewed for impairment. When a decline in fair value below the carrying value of retained interests is other than temporary, the Company and its subsidiaries consider the value of the retained interests to be impaired and record a write-down of the retained interests to fair value.

Fair values of retained interests are estimated by determining the present value of future expected cash flows based on management's estimates of key assumptions, including expected credit loss, discount rate and prepayment rate.

(l) Derivative financial instruments

The Company and its subsidiaries adopted FASB Statement No. 133 (Accounting for Derivative Instruments and Hedging Activities), FASB Statement No. 138 (Accounting for Certain Derivative Instruments and Certain Hedging Activity, an amendment of FASB Statement No. 133) and FASB 149 (Amendment of Statement 133 on Derivative Instruments and Hedging Activities). All derivatives are recognized on the balance

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sheet at their fair values. On the date the Company or subsidiaries enter into a derivative contract, the Company or its subsidiaries designate the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), a foreign-currency fair-value or cash-flow hedge (foreign currency hedge), a hedge of a net investment in foreign operation or a non-hedging transaction. For all hedging relationships, at inception the Company and its subsidiaries formally document the risk-management objective and strategy for undertaking the hedge transaction. The Company and its subsidiaries also document the hedged risk, the hedge type and the hedging instrument for each hedging activity. The Company and its subsidiaries also formally assess, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative is not highly effective for a hedge, hedge accounting is discontinued.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge, along with the loss or gain resulting from the changes of the fair value of the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded in earnings.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income (loss) to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item.

Changes in the fair value of derivatives that are highly effective as hedges and that are designated and qualify as foreign-currency hedges are recorded in either earnings or other comprehensive income (loss), depending on whether the hedge transaction is a fair-value hedge or a cash-flow hedge. However, if a derivative is used as a hedge of a net investment in a foreign operation, its changes in fair value, to the extent effective as a hedge, are recorded in the foreign currency translation adjustments account within accumulated other comprehensive income (loss). The ineffective portion of the change in fair value of a derivative instrument that qualifies as either a fair-value hedge or a cash-flow hedge is reported in earnings.

The Company and its subsidiaries discontinue hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is no longer designated as a hedging instrument, because it is unlikely that a forecasted transaction will occur, a hedged firm commitment no longer meets the definition of a firm commitment, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, the Company and its subsidiaries continues to carry the derivative on the balance sheet at its fair value and no longer adjusts the hedged asset or liability for changes in fair value. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Company and its subsidiaries continue to carry the derivative on the balance sheet at its fair value, removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the balance sheet, and recognize any gain or loss in earnings. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the Company and its subsidiaries continue to carry the derivative on the balance sheet at its fair value with subsequent changes in fair value included in earnings, and gains and losses that were accumulated in other comprehensive income (loss) are recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, the Company and its subsidiaries continue to carry the derivative at its fair value on the balance sheet and recognize any subsequent changes in its fair value in earnings.

The Company and its subsidiaries also hold derivative instruments for trading purposes, customer accommodation or not qualified as hedging instruments. The Company and its subsidiaries record these derivative instruments on the balance sheet at fair value. The changes in fair values are recorded in earnings.

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The Company and its subsidiaries occasionally purchase or originate financial instruments that contain an embedded derivative instrument. Upon acquisition or origination of such financial instrument, the Company and its subsidiaries assess whether the economic characteristics of the embedded derivative instrument are clearly and closely related to the economic characteristics of the financial instrument (host contract), whether the financial instrument that embodies both the embedded derivative instrument and the host contract is currently measured at fair value with changes in fair value reported in earnings, and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. If the embedded derivative instrument is determined not to be clearly and closely related to the host contract, is not currently measured at

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fair value with changes in fair value reported in earnings, and the embedded derivative instrument would qualify as a derivative instrument, the embedded derivative instrument is separated from the host contract and valued at fair value with changes recorded in earnings.

(m) Pension plans

The Company and certain subsidiaries have trusted contributory and non-contributory funded pension plans covering substantially all of their employees. The Company and its subsidiaries adopted FASB Statement No. 87 (Employers Accounting for Pensions), and the costs of pension plans are accrued based on amounts determined using actuarial methods under the assumptions of discount rate, rate of increase in compensation level, expected long-term rate of return on plan assets and others.

The Company and certain subsidiaries accounted for the transfer to the Japanese Government of a substitutional portion of an employees pension fund in fiscal 2005 in accordance with EITF Issue No. 03-2 (Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities). As specified in EITF Issue No. 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).

(n) Stock-based compensation

Stock-based compensation expense is accounted in accordance with APB Opinion No. 25 (Accounting for Stock Issued to Employees) as permitted by FASB Statement No. 123 (Accounting for Stock-Based Compensation) amended by FASB Statement No. 148 (Accounting for Stock-Based Compensation Transition and Disclosure). FASB Statement No. 123 provides entities a choice of recognizing related compensation expense by adopting the fair value method or to continue to measure compensation using the intrinsic value approach under APB Opinion No. 25. The Company chose to use the intrinsic value approach pursuant to APB Opinion No. 25 and recognized no compensation expense in fiscal 2003, 2004 and 2005.

Had compensation cost for the Company s stock option plans been determined consistent with FASB Statement No. 123, net income and earnings per share (EPS) in fiscal 2003, 2004 and 2005 would have been as follows:

Millions of yen			Millions of U.S. dollars
2003	2004	2005	2005

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As reported:				
Net income	¥ 30,243	¥ 54,020	¥ 91,496	\$ 852
Less: Total stock-based compensation expenses determined by fair value based method	(1,726)	(1,735)	(2,199)	(20)
Pro forma:				
Net income	28,517	52,285	89,297	832
Net income				
As reported:				
Basic EPS	¥ 361.44	¥ 645.52	¥ 1,087.82	\$ 10.13
Diluted EPS	340.95	601.46	1,002.18	9.33
Pro forma:				
Basic EPS	340.81	624.78	1,061.67	9.89
Diluted EPS	321.55	582.64	978.45	9.11

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

In December 2004, FASB Statement No. 123 (revised 2004) (Share-Based Payment) was issued. This statement is effective for fiscal years beginning after June 15, 2005 (see (ae)).

(o) Stock splits

Stock splits implemented prior to October 1, 2001 have been accounted for by transferring an amount equivalent to the par value of the shares from additional paid-in capital to common stock as required by the Japanese Commercial Code (the Code). No accounting recognition is made for stock splits when common stock already includes a portion of the proceeds from shares issued at a price in excess of par value. This method of accounting is in conformity with accounting principles generally accepted in Japan.

Based on an amendment to the Code, effective on October 1, 2001, the above-mentioned method of accounting based on the regulation has become unnecessary.

In the United States, stock splits in comparable circumstances are considered to be stock dividends and are accounted for by transferring from retained earnings to common stock and additional paid-in capital amounts equal to the fair market value of the shares issued. Common stock is increased by the par value of the shares and additional paid-in capital is increased by the excess of the market value over par value of the shares issued. Had such stock splits made prior to October 1, 2001 been accounted for in this manner, additional paid-in capital as of March 31, 2005 would have increased by approximately ¥24,674 million (\$230 million), with a corresponding decrease in retained earnings. Total shareholders equity would remain unchanged. A stock split on May 19, 2000 was excluded from the above amounts because the stock split was not considered to be a stock dividend under accounting principles generally accepted in the United States of America.

(p) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits placed with banks and short-term highly liquid investments with original maturities of three months or less.

(q) Restricted cash

Restricted cash consists of cash held in trusts for the segregation of assets under an investor protection fund and deposits related to servicing agreements.

(r) Other operating assets

Other operating assets consist primarily of operating facilities (including golf courses, hotels and a training facility), which are stated at cost less accumulated depreciation, and depreciation is calculated mainly on the straight-line basis over the estimated useful lives of the assets. Accumulated depreciation is ¥4,248 million and ¥6,714 million (\$63 million) as of March 31, 2004 and 2005, respectively. Estimated useful lives range up to 50 years for buildings, up to 56 years for fixtures and up to 20 years for machinery and equipment.

(s) Other receivables

Other receivables consist primarily of payments made on behalf of lessees for property tax, maintenance fees and insurance premiums in relation to direct financing lease contracts and receivables from the sale of lease assets and residential condominiums.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

(t) Inventories

Inventories consist primarily of advance and/or progress payments for development of residential condominiums for sale and completed residential condominiums (including completed residential condominiums waiting to be delivered to buyers under the contracts for sale). Advance and/or progress payments for sale are carried at cost less any impairment losses and finished goods (including completed residential condominiums) are stated at the lower of cost or market. As of March 31, 2004 and 2005, advance and/or progress payments were ¥93,822 million and ¥94,974 million (\$884 million), respectively, and finished goods were ¥27,619 million and ¥18,229 million (\$170 million), respectively.

(u) Office facilities

Office facilities are stated at cost less accumulated depreciation. Depreciation is calculated on a declining-balance basis or straight-line basis over the estimated useful lives of the assets. Accumulated depreciation is ¥22,670 million and ¥23,071 million (\$215 million) as of March 31, 2004 and 2005, respectively. Estimated useful lives range up to 55 years for buildings and fixtures and up to 20 years for machinery and equipment.

(v) Other assets

Other assets consist primarily of the excess of purchase prices over the net assets acquired in acquisitions (goodwill) and other intangible assets (see (w)), deferred insurance policy acquisition costs which are amortized over the contract periods, leasehold deposits and advance payments made in relation to purchases of assets to be leased.

(w) Goodwill and other intangible assets

In June 2001, FASB Statement No. 141 (Business Combinations) and FASB Statement No. 142 (Goodwill and Other Intangible Assets) were issued. FASB Statement No. 141 requires that all business combinations be accounted for using the purchase method. Accounting for business combinations using the pooling of interests method is no longer allowed. FASB Statement No. 141 also requires that intangible assets acquired in a business combination be recognized apart from goodwill if the intangible assets meet one of two criteria either the contractual-legal criterion or the separability criterion. The provisions of FASB Statement No. 141 apply to all business combinations initiated or business combinations accounted for by the purchase method completed after June 30, 2001. On April 1, 2002, as a result of the adoption of FASB Statement No. 141, the Company and its subsidiaries recorded a transition gain of ¥1,937 million, net of tax of ¥353 million, as a cumulative effect of a change in accounting principle, due to the write-off of unamortized deferred credits that existed as of March 31, 2002. The deferred credits relate to an excess of the fair value over cost arising from business combinations completed and investments accounted for by the equity method acquired

before July 1, 2001.

FASB Statement No. 142 establishes how intangible assets (other than those acquired in a business combination) should be accounted for upon acquisition. It also addresses how goodwill and other intangible assets should be accounted for subsequent to their acquisition. Both goodwill and intangible assets that have indefinite useful lives will no longer be amortized but will be tested at least annually for impairment. Intangible assets with finite lives will continue to be amortized over their useful lives, and will be tested for impairment in accordance with FASB Statement No. 144 (Accounting for the Impairment or Disposal of Long-Lived Assets).

(x) Trade notes, accounts payable and other liabilities

Trade notes, accounts payable and other liabilities include derivative payables and minority interests.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

(y) Capitalization of interest costs

The Company and its subsidiaries capitalized interest costs of ¥490 million, ¥222 million and ¥74 million (\$1 million) in fiscal 2003, 2004 and 2005, respectively, related to specific long-term development projects.

(z) Advertising

The costs of advertising are expensed as incurred. The total amounts charged to advertising expense in fiscal 2003, 2004 and 2005 are ¥9,472 million, ¥9,725 million and ¥13,012 million (\$121 million), respectively.

(aa) Discontinued operation

The Company and its subsidiaries have followed FASB Statement No. 144 (Accounting for the Impairment or Disposal of Long-Lived Assets). FASB Statement No. 144 broadened the scope of discontinued operations to include the operating results of any component of an entity with its own identifiable operations and cash flow which is disposed of and which the Company and its subsidiaries will not have significant continuing involvement. Included in reported discontinued operations are the operating results of certain properties sold or to be disposed of by sale in fiscal 2004 and 2005 without significant continuing involvements, which results of operations for the presented periods were reclassified in the accompanying consolidated financial statements.

(ab) Financial statements presentation in U.S. dollars

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2005, which was ¥107.39 to \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(ac) Earnings per share

Basic earnings per share is computed by dividing income from continuing operations and net income by the weighted average number of shares of common stock outstanding in each period and diluted earnings per share reflects the potential dilution that could occur if securities or other

contracts to issue common stock were exercised or converted into common stock. Earnings per share is adjusted for any stock splits and stock dividends retroactively.

Furthermore, as a result of applying EITF Issue No. 04-8 (The Effect of Contingently Convertible Instruments on Diluted Earnings per Share) to Liquid Yield Option Notes, diluted earnings per share for income from continuing operations and net income for fiscal 2004 have been restated retroactively. It did not have a dilutive effect on earnings per share for fiscal 2003.

(ad) Issuance of stock by a subsidiary or an affiliate

When a subsidiary or an affiliate issues stocks to unrelated third parties, the Company's ownership interest in the subsidiary or the affiliate decreases. In the event that the price per share is more or less than the Company's average carrying amount per share, the Company adjusts the carrying amount of its investment in the subsidiary and the affiliate and recognizes a gain or loss included in the consolidated statements of income in the year in which the change in ownership interest occurs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

(ae) New accounting pronouncements

In May 2003, FASB Statement No. 150 (Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity) was issued. This Statement requires financial instruments within its scope to be classified as liabilities (or assets in some circumstances). This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003, except for certain mandatorily redeemable financial instruments. In addition, certain provisions in this Statement were deferred indefinitely pending further Board action. Adoption of this Statement did not have a significant effect on the Company and subsidiaries' results of operations or financial position.

In December 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) No. 03-3 (Accounting for Certain Loans or Debt Securities Acquired in a Transfer). SOP No. 03-3 requires acquired loans to be recorded at fair value and prohibits carrying over or creation of valuation allowances in the initial accounting for all loans acquired in a transfer that have evidence of deterioration in credit quality since origination, when it is probable that the investor will be unable to collect all contractual cash flows. SOP No. 03-3 limits the yield that may be accreted to the excess of the undiscounted expected cash flows over the investor's initial investment in the loan. The excess of the contractual cash flows over expected cash flows may not be recognized as an adjustment of yield. Subsequent increases in cash flows expected to be collected are recognized prospectively through an adjustment of the loan's yield over its remaining life. Decreases in expected cash flows are recognized as an impairment. SOP No. 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. Adoption of this SOP will not have a significant effect on the Company and its subsidiaries' results of operations or financial position.

In July 2004, EITF Issue No. 04-8 (The Effect of Contingently Convertible Instruments on Diluted Earnings per Share) was issued. EITF Issue No. 04-8 requires that contingently convertible debt instruments (Co-Cos) which had not been recognized as diluted potential common shares unless the conditions to exercise the rights had been met under FASB Statement No. 128 (Earnings per Share) be included in diluted earnings per share computation as if Co-Cos could be converted from the date of issuance regardless of whether the conditions to exercise the rights have been met. EITF Issue No. 04-8 is effective for reporting periods ending after December 15, 2004. The Company and its subsidiaries adopted this issue in fiscal 2005 (see (ac)).

In December 2004, FASB Statement No. 153 (Exchange of Nonmonetary Assets an amendment of APB Opinion No. 29) was issued. This Statement amends the guidance in Accounting Principles Board (APB) Opinion No. 29 (Accounting for Nonmonetary Transactions), eliminating the exception to fair value accounting for nonmonetary exchanges of similar productive assets and replaces it with a general exception to fair value accounting for nonmonetary exchanges that do not have commercial substance. This Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Adoption of this Statement will not have a significant effect on the Company and subsidiaries' results of operations or financial position.

In December 2004, FASB Statement No. 123 (revised 2004) (FASB Statement No. 123(R)) (Share-Based Payment) was issued. FASB Statement No. 123(R) supersedes APB Opinion No. 25 (Accounting for Stock Issued to Employees) and amends FASB Statement No. 123. This Statement requires the Company to measure and record compensation expense for stock options and other share-based payment based on the instruments' fair value. The Company is required to adopt this Statement for fiscal years beginning after June 15, 2005 using a modified version

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of prospective application or may elect to apply a modified version of retrospective application. The Company expects to adopt this Statement using the modified version of prospective application and adoption of this Statement will not have a significant effect on the Company and subsidiaries' results of operations or financial position.

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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****ORIX Corporation and its Subsidiaries****(af) Reclassifications**

Certain amounts in fiscal 2003 and 2004 consolidated financial statements have been reclassified to conform to fiscal 2005 presentation. On the consolidated statements of income, costs related to operating leases, such as insurance, property taxes and other, which had been netted against revenues of operating leases in fiscal 2003 and 2004, were reclassified into an item of expenses, costs of operating leases along with depreciation cost of operating leases from fiscal 2005. And revenues and costs of office buildings sales were recorded along with revenues and costs of condominium sales. Accordingly, residential condominium sales and costs of residential condominium sales were renamed real estate sales and cost of real estate sales, respectively.

In addition, interest income on deposits on the consolidated statements of income, which had been disclosed in fiscal 2003 and 2004, was included in other operating revenues because it became insignificant.

2. Acquisitions

On July 31, 2002, the Company acquired a 90% interest in Nittetsu Lease Co., Ltd. from Nippon Steel Corporation. The aggregate purchase price was ¥5,016 million, which was paid in cash. The Company acquired Nittetsu Lease in line with its plans to expand its domestic leasing operations. The results of Nittetsu Lease's operations have been included in the consolidated financial statements since the date of acquisition.

The fair values of the net assets acquired from this acquisition at the date of acquisition were as follows:

	Millions of yen
Investment in direct financing leases (net)	¥ 112,605
Other assets	28,970
Intangible assets other than goodwill	2,910
Goodwill (non-tax deductible)	271
Total assets acquired	144,756
Short-term and long-term debt	131,862
Other liabilities	7,878
Total liabilities assumed	139,740

Net assets acquired	¥	5,016
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Of the ¥2,910 million of acquired intangible assets with an indefinite useful life other than goodwill, ¥1,455 million was assigned to trademarks, and ¥1,455 million was assigned as the value of a shareholders agreement and a business cooperation agreement that the Company signed with the seller, Nippon Steel Corporation.

During fiscal 2003, the Company and its subsidiaries acquired 10 other entities for a total cost of ¥25,530 million, which was paid in cash. Goodwill recognized in these transactions amounted to ¥3,127 million, which is not deductible for income tax calculation purposes. Acquisitions were made in line with the Company's plans mainly to expand real estate operations and guarantee business in Japan.

On December 31, 2003, Footwork Express Co., Ltd. (previously OSL Co., Ltd.), a 69.2% owned subsidiary of the Company, acquired net assets that constituted a business of reorganization company of Footwork Logistics Corporation (previously reorganization company, Footwork Express Co., Ltd.). The aggregate purchase price was ¥3,112 million, of which ¥2,598 million was paid on December 31, 2003 and ¥514 million was paid on

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****ORIX Corporation and its Subsidiaries**

March 30, 2004, respectively, in cash. The Company purchased a business of Footwork Logistics Corporation in line with its plans to expand its corporate rehabilitation business in Japan. In fiscal 2004, the Company included the balance sheet of Footwork Express Co., Ltd. as of December 31, 2003, the date of latest available financial statements, in the accompanying consolidated financial statements.

The fair values of the net assets acquired from this acquisition at the date of acquisition were as follows:

	Millions of yen
Intangible assets other than goodwill	¥ 2,225
Other assets	887
Total assets acquired	3,112
Net assets acquired	¥ 3,112

Of the ¥2,225 million of acquired intangible assets other than goodwill, ¥1,343 million was assigned to trade name that has an indefinite useful life and ¥614 million was assigned to a customer base that has an amortization period of 20 years and ¥268 million was assigned to a business license that has an amortization period of a half year. Furthermore, there is a possibility that additional payments may have to be made up to the fiscal 2007, depending upon the level of net income attained as stipulated in the business transfer contract. In this case, additional payments will be accounted for as an adjustment to the purchase price.

Furthermore, the Company's share in Footwork Express Co., Ltd. was reduced in December 2004 due to an increase in capital whereby the substantive participating rights of a minority shareholder were increased. As a result, the Company no longer has a controlling financial interest in Footwork Express Co., Ltd. and included this company in investment in affiliates on the consolidated balance sheet as of March 31, 2005.

The 12 months operating results of Footwork Express Co., Ltd. have been included in the consolidated statement of income in fiscal 2005 based on its calendar reporting year ended December 31, 2004 and are reported in the income statement as transportation revenues and costs of transportation revenues. As a result of the reduction in the Company's ownership interest in Footwork Express Co., Ltd., the Company will prospectively record its proportionate share of net income or loss of Footwork Express Co., Ltd. by the equity method.

During fiscal 2004, the Company and its subsidiaries acquired five other entities for a total cost of ¥10,658 million, which was paid in cash. Goodwill, which is not deductible for income tax calculation purposes, recognized in these transactions amounted to ¥1,230 million as a result of preliminary purchase price allocation at the time of acquisition, which was then adjusted to ¥398 million in accordance with the finalization of purchase price allocation during fiscal 2005. Acquisitions were made in line with the Company's plans to expand real estate operations,

automobile operations and corporate rehabilitation business in Japan.

During fiscal 2005, the Company and its subsidiaries acquired 10 entities for a total cost of ¥18,131 million (\$169 million), which was paid in cash. Goodwill recognized in these transactions amounted to ¥2,330 million (\$22 million), which is not deductible for income tax calculation purposes. Acquired intangible assets with an indefinite useful life other than goodwill recognized in these transactions amounted to ¥1,461 million (\$14 million), which consist of ¥1,400 million (\$13 million) for a business model of a cash collection system and ¥61 million (\$1 million) for a trade name. The Company reflected certain preliminary estimates with respect to the value of the underlying net assets of these entities in determining amounts of the goodwill. Thus, the amount of the goodwill may be adjusted upon completion of the purchase price allocation. Acquisitions were made in line

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with the Company's plans to expand corporate financial services operations, real estate operations and corporate rehabilitation business in Japan.

The segment in which goodwill is allocated is disclosed in Note 12 Goodwill and Other Intangible Assets .

3. Cash Flow Information

Cash payments and non-cash financing activities during fiscal 2003, 2004 and 2005 are as follows:

	Millions of yen			Millions of U.S. dollars
	2003	2004	2005	2005
Cash payments:				
Interest	¥ 74,885	¥ 60,951	¥ 57,613	\$ 536
Income taxes	25,641	56,364	63,613	592
Non-cash financing activities:				
Conversion of convertible bond			39,999	372

4. Investment in Direct Financing Leases

Investment in direct financing leases at March 31, 2004 and 2005 consists of the following:

	Millions of yen		Millions of U.S. dollars
	2004	2005	2005
Minimum lease payments receivable	¥ 1,510,856	¥ 1,500,483	\$ 13,972
Estimated residual value	84,582	91,990	857
Initial direct costs	21,379	17,565	164
Unearned lease income	(163,242)	(158,464)	(1,476)

<u>¥ 1,453,575</u>	<u>¥ 1,451,574</u>	<u>\$ 13,517</u>
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In connection with the securitization of direct financing lease receivables, as described in Note 9, the Company and its subsidiaries retained subordinated interests of ¥50,072 million and ¥66,299 million (\$617 million) as of March 31, 2004 and 2005, respectively, and furthermore a certain subsidiary retained senior interests of ¥35,199 million (\$328 million) as of March 31, 2005, which are included in investment in the above table.

Minimum lease payments receivable (including guaranteed residual values and, senior and subordinated interests retained) are due in periodic installments through 2025. At March 31, 2005, the amounts due in each of the next five years and thereafter are as follows:

Years ending March 31,	Millions of yen	Millions of U.S. dollars
2006	¥ 538,342	\$ 5,013
2007	375,301	3,495
2008	260,970	2,430
2009	176,424	1,643
2010	80,994	754
Thereafter	68,452	637
Total	¥ 1,500,483	\$ 13,972

Gains and losses from the disposition of direct financing lease assets are not significant for fiscal 2003, 2004 and 2005.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****ORIX Corporation and its Subsidiaries****5. Investment in Operating Leases**

Investment in operating leases at March 31, 2004 and 2005 consists of the following:

	Millions of yen		Millions of U.S. dollars
	2004	2005	2005
Transportation equipment	¥ 320,973	¥ 376,595	\$ 3,507
Measuring equipment and personal computers	157,717	156,171	1,454
Real estate and other	290,037	337,270	3,141
	<u>768,727</u>	<u>870,036</u>	<u>8,102</u>
Accumulated depreciation	(249,007)	(265,022)	(2,468)
Net	519,720	605,014	5,634
Rental receivables	16,982	13,991	130
	<u>¥ 536,702</u>	<u>¥ 619,005</u>	<u>\$ 5,764</u>

Gains/losses from disposition of real estate under operating lease assets are disclosed separately as gains on sales of real estate under operating leases and discontinued operations, respectively, in the accompanying consolidated statements of income.

For fiscal 2003, 2004 and 2005, gains from the disposition of assets under operating leases other than real estate are ¥4,424 million, ¥2,783 million and ¥4,746 million (\$44 million), respectively, and are included in operating lease revenues.

Costs of operating leases include depreciation and various expenses (insurance, property tax and other). Costs of depreciation and various expenses for fiscal 2003, 2004 and 2005 are as follows:

	Millions of yen	Millions of U.S. dollars
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	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>
Depreciation	¥ 79,306	¥ 82,987	¥ 87,087	\$ 811
Various expenses	38,056	37,579	37,571	350
	<u>¥ 117,362</u>	<u>¥ 120,566</u>	<u>¥ 124,658</u>	<u>\$ 1,161</u>

The operating lease contracts include non-cancelable lease terms ranging from one month to 21 years. The minimum future rentals on non-cancelable operating leases are as follows:

<u>Years ending March 31,</u>	<u>Millions of yen</u>	<u>Millions of U.S. dollars</u>
2006	¥ 80,631	\$ 751
2007	47,913	446
2008	30,734	286
2009	17,763	165
2010	9,306	87
Thereafter	19,596	183
Total	<u>¥ 205,943</u>	<u>\$ 1,918</u>

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****ORIX Corporation and its Subsidiaries****6. Installment Loans**

The composition of installment loans by domicile and type of borrower at March 31, 2004 and 2005 is as follows:

	Millions of yen		Millions of U.S. dollars
	2004	2005	2005
Borrowers in Japan:			
Consumer			
Housing loans	¥ 504,386	¥ 507,250	\$ 4,723
Card loans	247,598	228,505	2,128
Other	54,634	75,353	702
	<u>806,618</u>	<u>811,108</u>	<u>7,553</u>
Corporate			
Real estate related companies	310,847	369,083	3,437
Commercial and industrial companies	850,539	960,500	8,944
	<u>1,161,386</u>	<u>1,329,583</u>	<u>12,381</u>
	<u>1,968,004</u>	<u>2,140,691</u>	<u>19,934</u>
Overseas corporate, industrial and other borrowers	250,460	233,263	2,172
Loan origination costs, net	16,476	12,643	118
	<u>¥ 2,234,940</u>	<u>¥ 2,386,597</u>	<u>\$ 22,224</u>

Generally, all installment loans, except card loans, are made under agreements which require the borrower to provide collateral or guarantors.

At March 31, 2005, the contractual maturities of installment loans for each of the next five years and thereafter are as follows:

<u>Years ending March 31,</u>	Millions of yen	Millions of U.S. dollars
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2006	¥	599,783	\$	5,585
2007		290,601		2,706
2008		276,705		2,577
2009		205,688		1,915
2010		242,247		2,256
Thereafter		758,930		7,067
Total	¥	2,373,954	\$	22,106

Included in interest on loans and investment securities in the consolidated statements of income is interest income on loans of ¥115,610 million, ¥107,490 million and ¥125,898 million (\$1,172 million) for fiscal 2003, 2004 and 2005, respectively.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****ORIX Corporation and its Subsidiaries****7. Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses**

Changes in the allowance for doubtful receivables on direct financing leases and probable loan losses for fiscal 2003, 2004 and 2005 are as follows:

	Millions of yen			Millions of U.S. dollars
	2003	2004	2005	2005
Beginning balance	¥ 152,887	¥ 133,146	¥ 128,020	\$ 1,192
Provisions charged to income	54,706	49,592	39,574	369
Charge-offs	(78,744)	(54,471)	(54,122)	(504)
Recoveries	2,180	1,892	1,472	13
Other*	2,117	(2,139)	306	3
Ending balance	¥ 133,146	¥ 128,020	¥ 115,250	\$ 1,073

* Other includes foreign currency translation adjustments and the effect of acquisitions.

The balance of the allowance broken down into investment in direct financing leases and installment loans at March 31, 2004 and 2005 is as follows:

	Millions of yen		Millions of U.S. dollars
	2004	2005	2005
Balance of allowance related to:			
Investment in direct financing leases	¥ 41,008	¥ 36,264	\$ 338
Installment loans	87,012	78,986	735
Total	¥ 128,020	¥ 115,250	\$ 1,073

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Under FASB Statement No. 114 (Accounting by Creditors for Impairment of a Loan), impaired loans shall be measured based on the present value of expected future cash flows discounted at the loan s original effective interest rate. As a practical expedient, impairment is measured based on the loan s observable market price or the fair value of the collateral if the loan is collateral dependent. Certain loans, such as large groups of smaller-balance homogeneous loans (these include individual housing loans and card loans which are not restructured) and lease receivables, are collectively evaluated for impairment. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

The recorded investments in loans considered impaired are ¥93,542 million and ¥86,021 million (\$801 million) as of March 31, 2004 and 2005, respectively. Of these amounts, it was determined that a valuation allowance was required with respect to loans which had outstanding balances of ¥72,033 million and ¥67,745 million (\$631 million) as of March 31, 2004 and 2005, respectively. For such loans, the Company and its subsidiaries recorded a valuation allowance of ¥39,187 million and ¥35,150 million (\$327 million) as of March 31, 2004 and 2005, respectively. This valuation allowance is included in the allowance for doubtful receivables on direct financing leases and probable loan losses in the accompanying consolidated balance sheets.

The average recorded investments in impaired loans for fiscal 2003, 2004 and 2005 were ¥102,413 million and ¥94,346 million, ¥91,782 million (\$855 million), respectively.

The Company and its subsidiaries recognized interest income on impaired loans of ¥1,107 million, ¥990 million and ¥1,790 million (\$17 million), and collected in cash interest on impaired loans of ¥914 million, ¥954 million and ¥1,613 million (\$15 million) in fiscal 2003, 2004 and 2005, respectively.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****ORIX Corporation and its Subsidiaries**

The Company and its subsidiaries use 90 days for suspending recognition of income from direct financing leases and loans, however, the Company and its subsidiaries used 180 days prior to fiscal 2003. (see Note 1(e))

As of March 31, 2004 and 2005, the balances of direct financing leases on non-accrual status were ¥36,568 million and ¥25,733 million (\$240 million), and the balances of smaller-balance homogeneous loans on non-accrual status were ¥43,176 million and ¥26,945 million (\$251 million), respectively.

8. Investment in Securities

Investment in securities at March 31, 2004 and 2005 consists of the following:

	Millions of yen		Millions of U.S. dollars
	2004	2005	2005
Trading securities	¥ 26,354	¥ 47,784	\$ 445
Available-for-sale securities	386,797	390,542	3,637
Other securities	138,777	150,945	1,405
Total	¥ 551,928	¥ 589,271	\$ 5,487

Gains and losses realized from the sale of trading securities and net unrealized holding gains or losses on trading securities are included in gains on investment securities, net (see Note 20).

For fiscal 2003, 2004 and 2005, net unrealized holding gains and losses on trading securities are losses of ¥1,610 million, gains of ¥1,977 million and losses of ¥764 million (\$7 million), respectively.

During fiscal 2003 and 2004, the Company and its subsidiaries sold available-for-sale securities for aggregate proceeds of ¥264,021 million and ¥164,860 million, respectively, resulting in gross realized gains of ¥9,822 million and ¥10,910 million, respectively, and gross realized losses of ¥2,234 million and ¥2,182 million, respectively. During fiscal 2005, the Company and its subsidiaries sold available-for-sale securities for aggregate proceeds of ¥158,740 million (\$1,478 million), resulting in gross realized gains of ¥23,036 million (\$215 million) and gross realized

losses of ¥1,747 million (\$16 million). The cost of the securities sold was based on the average cost of each such security held at the time of the sale.

During fiscal 2003, 2004 and 2005, the Company and its subsidiaries charged losses on securities of ¥14,325 million, ¥5,240 million and ¥4,930 million (\$46 million), respectively, to the accompanying consolidated statements of income for declines in market value of securities where the decline was considered as other than temporary.

Other securities consist mainly of non-marketable equity securities, preferred capital shares carried at cost and investment funds accounted for under the equity method.

The aggregate carrying amount of other securities accounted for under the cost method totaled ¥79,516 million (\$740 million) at March 31, 2005. Investments with an aggregate cost of ¥76,920 million (\$716 million) were not evaluated for impairment because the Company and its subsidiaries did not estimate the fair value of those investments as it was not practicable to estimate the fair value of the investment and the Company and its subsidiaries did not identify any events or changes in circumstances that might have had significant adverse effect on the fair value of those investments.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****ORIX Corporation and its Subsidiaries**

The amortized cost basis amounts, gross unrealized holding gains, gross unrealized holding losses and fair values of available-for-sale securities in each major security type at March 31, 2004 and 2005 are as follows:

March 31, 2004

	Millions of yen			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Japanese and foreign government bond securities	¥ 14,520	¥ 87	¥ (146)	¥ 14,461
Japanese prefectural and foreign municipal bond securities	16,761	20	(115)	16,666
Corporate debt securities	174,398	2,524	(2,977)	173,945
Mortgage-backed and other asset-backed securities	124,398	5,169	(3,387)	126,180
Equity securities	17,562	39,030	(1,047)	55,545
	<u>¥ 347,639</u>	<u>¥ 46,830</u>	<u>¥ (7,672)</u>	<u>¥ 386,797</u>

March 31, 2005

	Millions of yen			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Japanese and foreign government bond securities	¥ 4,498	¥ 78	¥ (215)	¥ 4,361
Japanese prefectural and foreign municipal bond securities	16,941	68	(138)	16,871
Corporate debt securities	238,096	2,159	(1,332)	238,923
Mortgage-backed and other asset-backed securities	65,192	13,460	(2,314)	76,338
Equity securities	18,912	35,862	(725)	54,049
	<u>¥ 343,639</u>	<u>¥ 51,627</u>	<u>¥ (4,724)</u>	<u>¥ 390,542</u>