ORIX CORP
Form 20-F
July 25, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

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

For the fiscal year ended March 31, 2003

OR

o **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)

3-22-8 Shiba, Minato-ku

Tokyo 105-8683, 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 (the Shares)	New York Stock Exchange*

(2)	American Depository Shares (ADSs), each of which represents one-half of one Share	New York Stock Exchange
(3)	0.375% Convertible Notes due 2005 (the Notes)	New York Stock Exchange
(4)	American Depository Notes (ADNs), each of which represents one Note in the principal amount of ¥2,000,000	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, 2003, 84,365,914 Shares and 984,920 ADSs are outstanding.

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 þ No o

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

Item 17 o Item 18 þ

*Not for trading, but only in connection with the registration of American Depositary Shares.

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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 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%, and affiliate and affiliates refer to all of our affiliates accounted for by the equity method, companies in which ORIX owns 20-50% and has the ability to exercise significant influence over their operations.

The consolidated financial statements of ORIX have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. 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 included in this annual report have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be equal to the arithmetic sum of the figures which precede them.

The Company s fiscal year ends on March 31. The fiscal year ended March 31, 2003 is referred to throughout this annual report as fiscal 2003 or the 2003 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.

FORWARD LOOKING STATEMENTS

This annual report contains statements that constitute forward-looking statements within the meaning of Section 21(E) of the Securities Exchange Act of 1934. When included in this annual report, the words, will, should, expects, intends, anticipates, estimates and similar expressions, among 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 Disclosure 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 date of this annual report. The Company expressly disclaims 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.

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PART I

Item 1. Identity of Directors, Senior Management and Advisors.

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 Asahi & Co., a member firm of KPMG International, a Swiss nonoperating association.

	Year ended March 31,					
	1999	2000	2001	2002	2003	2003
	(In millions of yen and millions of U.S. dollars)					
INCOME STATEMENT DATA						
Total revenues	¥593,941	¥616,513	¥586,149	¥658,462	¥683,645	$ 5,688
Total expenses	562,899	563,627	529,001	585,093	645,562	5,371
Operating income	31,042	52,886	57,148	73,369	38,083	317
Equity in net income (loss) of affiliates	(7,705)	665	29	(449)	6,203	51
Gain (loss) on sales of affiliates	3,978	(1,503)	2,059	119	2,002	17
Income before extraordinary gain, cumulative effect of a change in accounting principle and income taxes	27,315	52,048	59,236	73,039	46,288	385
Net income	25,621	30,642	34,157	40,269	30,243	252

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	As of March 31,					
	1999	2000	2001	2002	2003	2003
	(In millions of yen and millions of U.S. dollars except number of Shares)					
BALANCE SHEET DATA						
Investment in direct financing leases(1)	¥1,952,842	¥1,744,953	¥1,657,709	¥1,658,669	¥1,572,308	$13,081
Installment loans(1)	1,761,887	1,791,439	1,846,511	2,273,280	2,288,039	19,035
Subtotal	3,714,729	3,536,392	3,504,220	3,931,949	3,860,347	32,116
Investment in operating leases	411,156	397,576	451,171	474,491	529,044	4,401
Investment in securities	576,206	758,381	942,158	861,336	677,435	5,636
Other operating assets	73,345	72,472	132,006	260,373	101,481	844
Operating assets(2)	4,775,436	4,764,821	5,029,555	5,528,149	5,168,307	42,997
Allowance for doubtful receivables on direct financing leases and probable loan losses	(132,606)	(136,939)	(141,077)	(152,887)	(133,146)	(1,108)
Other assets	704,806	713,660	702,833	974,957	895,906	7,454
Total assets	¥5,347,636	¥5,341,542	¥5,591,311	¥6,350,219	¥5,931,067	$49,343
Short-term debt	¥2,184,983	¥1,912,761	¥1,562,072	¥1,644,462	¥1,120,434	$ 9,321
Long-term debt	2,036,028	1,942,784	2,330,159	2,809,861	2,856,613	23,766
Common stock	20,180	41,688	41,820	51,854	52,067	433
Additional paid-in capital	37,464	59,285	59,885	69,823	70,002	582
Shareholders equity	327,843	425,671	461,323	502,508	505,458	4,205
Number of issued Shares	64,870,299	68,630,294	82,388,025	84,303,985	84,365,914	

	1999	2000	2001	2002	2003
KEY RATIOS(3)					
Return on equity (ROE)	7.99	8.13	7.70	8.36	6.00
Return on assets (ROA)	0.47	0.57	0.62	0.67	0.49
Shareholders equity ratio	6.13	7.97	8.25	7.91	8.52
Allowance/ investment in direct financing leases and installment loans	3.57	3.87	4.03	3.89	3.45
PER SHARE DATA AND EMPLOYEES	(In yen except number of employees)				
Shareholders equity per Share	¥4,232.02	¥5,199.12	¥5,646.11	¥6,007.52	¥6,039.43
Basic earnings per Share(4)	330.43	385.27	417.77	489.19	361.44
Diluted earnings per Share(4)	330.43	377.02	400.99	467.11	340.95
Cash dividends per Share	15.00	15.00	15.00	15.00	15.00
Numbers of Employees	9,037	9,503	9,529	11,271	11,833

(1) The sum of assets considered more than 90 days past due and total impaired assets measured pursuant to Financial Accounting Standards Board, or FASB, Statement No. 114 amounted to ¥271,177 million as of March 31, 2000, ¥258,432 million as of March 31, 2001, ¥255,123 million as of March 31, 2002 and ¥205,690 million as of March 31, 2003. These sums included investment in direct financing leases considered more than 90 days past due of ¥53,743 million as of March 31, 2000, ¥53,515 million as of March 31, 2001, ¥67,924 million as of March 31, 2002 and ¥47,825 million as of March 31, 2003, installment loans (excluding amounts covered by FASB Statement No. 114) considered more than 90 days past due of ¥91,513 million as of March 31, 2000, ¥84,827 million as of March 31, 2001, ¥74,199 million as of March 31, 2002 and ¥60,587 million as of March 31, 2003, and installment loans considered impaired in accordance with FASB Statement No. 114 of ¥125,921 million as of March 31, 2000, ¥120,090 million as of March 31, 2001, ¥113,000 million as of March 31, 2002 and ¥97,278 million as of March 31, 2003. See Item 5.

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

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

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

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

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

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

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

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

Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

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an increase in write-downs of securities and other investments if the market values of securities continue to decline and such declines are not expected to be temporary or as a consequence of the insolvency of issuers; and

losses on sale of or unrealized loss on real estate holdings if the value of our real estate in the United States declines significantly.

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

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

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

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

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

declines in the value of the local currency,

declines in gross domestic product,

declines in corporate earnings,

political turmoil, or

stock market volatility.

These and other factors could result in

lower demand for our services,

further deterioration of credit quality of our customers in Asian markets,

the need to provide financial support to our Asian subsidiaries or affiliates, or

further write-offs of Asian assets.

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

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

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

On the other hand, a decrease in interest rates could result in faster prepayments of loans. In addition, changes in market interest rates could affect the interest income that we receive on interest-earning assets

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differently than the interest rates we pay on interest-bearing liabilities. This could increase our interest expense more than our revenues. An increase in market interest rates could make some of our floating-rate loan customers default on our loans to them.

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

We may suffer losses on our investment portfolio

We hold large investments in debt and equity securities, mainly in Japan and the United States. As of March 31, 2003, the carrying amount of our investments in securities was ¥677,435 million. We may suffer losses on these investments because of changes in market prices, defaults or other reasons. 5.3% of our investment in securities as of March 31, 2003 was marketable equity securities, mainly common stock of Japanese listed companies. The market values of these equity securities are volatile and have declined substantially in recent years. Unrealized gains and losses on debt and equity securities classified as available-for-sale securities are recorded in shareholders equity, net of income taxes, and are not directly charged to income. However, declines in market value on available-for-sale securities and held-to-maturity securities are charged to income if we believe that these declines are other than temporary. We recorded ¥19,742 million in charges of this kind in the year ended March 31, 2002 and ¥14,325 million in charges of this kind in the year ended March 31, 2003. We may have to record more charges of this kind in the future.

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

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

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

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

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

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

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

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

We compete primarily on the basis of pricing, terms and transaction structure. Other important competitive factors include industry experience, client service and relationships. From time to time, our competitors seek to compete aggressively on the basis of pricing and terms and we may lose market share if we are unwilling to match our competitors because we want to maintain our interest margins. Because some of our competitors are larger than us and have access to capital at a lower cost than we have, they may be better able to maintain profitable interest margins while still reducing prices. To the extent that we match our competitors pricing or terms, we may experience lower interest margins.

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

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

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

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

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

We expect to be treated as a passive foreign investment company

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

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

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

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

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

Item 4. Information on the Company

General

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

Corporate History

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

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

It was also during this time that our marketing strategy shifted from a focus on using the established networks of the trading companies and other initial shareholders, to one that concentrated on independent marketing as the number of branches expanded. In April 1970, we listed our shares on the second section of the Osaka Securities Exchange, which at the time was the fastest listing by a new company in post-World War II Japan. Since February 1973, our shares have been listed on the first sections of the Tokyo and Nagoya Stock Exchanges and the Osaka Securities Exchange.

The 1970s saw the gradual maturing of the Japanese leasing industry and the Japanese economy was adversely affected by the two oil shocks of 1973 and 1979, resulting in reduced growth in capital spending and increased volatility in foreign exchange rates. Despite these difficulties, ORIX continued to grow rapidly by expanding and diversifying its range of products and services to include ship and aircraft leasing along with real estate-related finance and development. Beginning in 1972 with the establishment of ORIX Alpha Corporation (ORIX Alpha), which concentrated on leasing furnishings and fixtures to retailers, hotels, restaurants and other users, ORIX set up a number of specialized leasing companies to tap new market potential, including ORIX Auto Leasing Corporation (ORIX Auto Leasing) in 1973 and ORIX Rentec Corporation (ORIX Rentec) in 1976. With the establishment of ORIX Credit Corporation (ORIX Credit) in 1979, we began our move into the retail market by offering financing services to individuals.

It was also during the 1970s that we began our overseas expansion, commencing with the establishment of our first overseas office in Hong Kong in 1971, followed by Singapore (1972), Malaysia (1973), the United States (1974), Indonesia (1975), South Korea (1975) and the Philippines (1977).

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

During the 1980s, we began using mergers and acquisitions to expand operations and made our initial investment in ORIX Securities Corporation (ORIX Securities formerly Akane Securities K.K.) and ORIX Estate Corporation (ORIX Estate formerly ORIX 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 12 professional baseball teams in Japan, now called ORIX BlueWave, 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. Nevertheless, we continued to further develop our financial activities. For example, in 1991, we entered the life insurance business through ORIX Life Insurance Corporation (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, we entered the commercial mortgage backed securities business through a joint venture with Bank One Corporation of the United States in 1997 (presently a 100% ORIX-owned subsidiary called ORIX Capital Markets, LLC).

The 1990s was also a decade in which we started to concentrate more efforts on developing 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, ORIX Trust and Banking Corporation (ORIX Trust and Banking the former Yamaichi Trust & Bank, Ltd.) was acquired in 1998 and 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 individuals.

In 1999, in order to increase the efficiency of our real estate-related operations, we established the Real Estate Finance Headquarters to concentrate primarily on real estate-related finance and ORIX Real Estate Corporation (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, building maintenance and asset management in Japan.

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With the establishment of our Investment Banking Headquarters in 1999, we are attempting to expand our investment banking operations, which include principal investments, corporate rehabilitation and consulting activities.

Strategy

Our business model over the years has been based primarily on acquiring quality financial and other assets and aiming for interest spreads that compensate us for the risks involved. However, we are now pursuing a strategy of attempting to increase profits without growing assets as we focus on raising profitability and strengthening our balance sheet. We are pursuing a mid-term strategy to achieve this goal using two basic methods. First, we are attempting to increase the spreads and profitability of traditional asset-based activities like leasing and lending by focusing on specialized or niche markets. Second, we are trying to increase our fee and other income not generated primarily by interest spreads by providing investment-banking services to our core customer base of mainly small and medium-sized companies.

Increasing Returns on Asset Businesses

ORIX Auto Leasing is a specialist automobile lessor. By using our specialization in managing fleets of automobiles, we are providing a cost effective and convenient way for customers to outsource their automobile fleets.

Our consumer card loan business, where we have concentrated on the niche of providing short-term loans to relatively high income individuals, and our housing loan business, focusing on individuals looking to purchase condominiums for investment purposes, provide two examples of our attempt to generate good returns by focusing on niche areas within the financial services industry. As we continue to attempt to increase spreads in our traditional asset businesses of corporate leasing and lending, we would like to put even more emphasis on specialized and niche businesses to increase our profitability.

Increasing Income from Asset Turnover and Fee Businesses

Our real estate business provides an example of our emphasis on generating returns by turning assets over. Through our expertise in refurbishing real estate, we believe that we are able to add value to properties such as office and commercial buildings that we purchase. We are also able to use our extensive client base to search for potential tenants to fill these properties. We then attempt to sell off the renovated and leased buildings for a profit.

Our real estate-related finance business also generates income by accumulating good assets and then selling them off for a gain. We have been an active player in the market for some transactions like non-recourse loans, which can be pooled together and then securitized in the form of commercial mortgage-backed securities (CMBS). Other examples include the purchase of distressed loans, where we exercise our rights to the collateral backing such loans, add value to the properties, and then sell them to a third party.

Up to now, we have developed some fee income by cross-selling insurance, investment and other financial products to our core base of about 500,000 mainly small and medium-sized companies in Japan. Recently, we have taken advantage of our expertise in real estate-related finance to increase our fee income though our building maintenance and loan servicing operations. We also act as the asset manager for a real estate investment trust (JREIT) that was listed in June 2002. In addition, we are starting to see more opportunities to develop new types of fee businesses by providing financial solutions such as M&A advisory services to small and medium-sized companies that are looking to restructure or expand their operations.

Overview of Activities

Our operations presently consist of five major areas: corporate finance, real estate-related businesses, life insurance and retail finance in Japan, and international operations. Corporate finance is primarily the provision of financial products and services, including leasing, lending, and, more recently, investment banking services, to mainly small and medium-sized enterprises. Real estate-related businesses include the development, management, operation and sale of real estate in addition to real estate-related finance, such as non-recourse loans, commercial mortgage-backed securities, loan servicing and real estate investment trusts. Life insurance includes underwriting and agency sales of life insurance products in Japan. Retail finance is primarily the provision of housing loans and consumer card loans. International operations consist primarily of leasing and lending to corporate customers, real estate-related businesses, investment in securities and loan servicing in 22 markets in North America, Asia, Oceania, Europe, Northern Africa and the Middle East.

Profile of Business by Revenues and Operating Assets

Our activities can be viewed in two primary ways using our consolidated financial information. One is based upon the individual items for revenues and operating assets in our consolidated statements of income and consolidated balance sheets. The other is a breakdown based on segment information. The following provides an explanation of each business based on the first method. For an explanation of each business based on the second method see Profile of Business by Segment.

The following table shows revenues by revenue type.

	Years ended March 31,		
	2001	2002	2003
	(In millions of yen)		
Revenues:			
Direct financing leases	¥122,003	¥121,914	¥122,928
Operating leases	113,478	120,807	127,608
Interest on loans and investment securities	109,448	121,962	131,590
Brokerage commissions and net gains on investment securities	12,055	18,367	10,857
Life insurance premiums and related investment income	158,314	152,333	138,511
Residential condominium sales	36,928	58,078	71,165
Interest income on deposits	2,520	1,374	526
Other operating revenues	31,403	63,627	80,460
Total revenues	¥586,149	¥658,462	¥683,645

81% of revenues came from our operations in Japan in fiscal 2003, and 19% were generated from operations overseas.

No single customer accounted for 10% or more of total revenues for fiscal 2001, 2002 and 2003.

Except for revenues from fees and commissions and revenue recognized from the sale of some real estate developments such as residential condominiums in which assets are recorded as advances, revenues are generated from the operating assets as shown in the table below.

	As of March 31,		
	2001	2002	2003
	(In millions of yen)		
Operating Assets:			
Investment in direct financing leases	¥1,657,709	¥1,658,669	¥1,572,308
Investment in operating leases	451,171	474,491	529,044
Installment loans	1,846,511	2,273,280	2,288,039
Investment in securities	942,158	861,336	677,435
Other operating assets	132,006	260,373	101,481

Total operating assets	¥5,029,555	¥5,528,149	¥5,168,307

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As of March 31, 2003, 80% of operating assets were in Japan, and 20% overseas.

Direct Financing Leases

The typical direct financing lease is for one specific user and is generally non-cancelable during the lease term. ORIX purchases the equipment on behalf of the user who usually makes monthly payments of a fixed amount and the financial terms are designed to recover most, if not all, of the initial cost of the equipment, interest and other costs during the initial contractual lease term. In Japan, we usually retain ownership of the equipment and can lease the equipment again or sell it in the secondary markets after the initial lease contract expires. In certain cases, the lessee has an option to purchase the equipment after the lease contract expires, or in the case of what are called hire-purchases, the ownership rights of the equipment transfer to the lessee upon completion of the contract.

A direct financing lease is treated as a financial asset. When we receive lease payments from lessees, only the interest component and fee component is recorded as revenues on the consolidated statements of income, while the portion of the lease payment attributable to the principal is recognized only in the consolidated statement of cash flows. For more information on revenue recognition of direct financing lease revenues, see Note 1(e) in Item 18. Financial Statements.

Direct financing leases made up 18% of total revenues and 30% of total operating assets in the fiscal year ended March 31, 2003.

We engage in direct financing lease operations in Japan and in most countries in which we have operations. Our direct financing lease operations cover most types of equipment, broadly categorized into information-related and office equipment, industrial equipment, commercial services equipment, transportation equipment, and other equipment.

Information-Related and Office Equipment

Information-related and office equipment includes computers and office automation equipment such as photocopy machines. Much of this equipment is leased by the ORIX OQL Headquarters through a program in Japan called ORIX Quick Lease, in which independent vendors act as agents to lease these small-ticket items. We have systematized the contract process and automated credit evaluation to improve the efficiency of our origination activities.

Industrial Equipment

Industrial equipment primarily consists of construction and heavy equipment, and pulp and paper milling equipment. The main companies providing these leases are ORIX in Japan and ORIX Financial Services, Inc. (OFS) in the United States.

Commercial Services Equipment

Commercial services equipment includes vending machines, gaming machines, showcases and point-of-sales systems. The main company providing these leases is ORIX in Japan.

Transportation Equipment

Transportation equipment within the direct financing lease portfolio consists primarily of automobile fleet leasing to corporate clients. ORIX Auto Leasing and IFCO Inc. (IFCO) are our main companies handling operations in Japan. We also have subsidiaries in the United States and in several countries in Asia and Oceania that lease automobiles.

Other Equipment

Other equipment that we lease includes telecommunications and medical equipment. Most of these leases are made in Japan.

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Operating Leases

Operating leases differ from direct financing leases in that they are generally cancelable by the lessee. We usually do not substantially recoup the initial cost of the item through lease payments during the initial lease term. Therefore, we usually lease out the same item sequentially to more than one customer (or to the same customer under successive lease contracts) during its useful life. We record the entire payments made by customers as revenues and there is a corresponding expense called Depreciation Operating Leases.

In the Japanese marketplace, operating leases are often referred to as rentals. As the lessor of an operating lease, we bear the inventory risk. This means that we must always maintain strong links to secondary markets for the purchase and sale of used equipment. The principal participants in these informal, unregulated markets are brokers and dealers who specialize in the purchase and sale of used equipment.

Operating leases made up 19% of consolidated revenues and 10% of total operating assets as of and for the year ended March 31, 2003.

Our operating leases operations are broadly classified into three principal types of equipment: transportation equipment, precision measuring equipment and personal computers, and real estate and other.

Transportation Equipment

Transportation equipment that we lease out under operating leases consists mainly of aircraft, automobiles and oceangoing vessels. Our fleet of aircraft as of March 31, 2003 stood at 20 owned and 50 managed aircraft. These are leased principally to European, North American and Asian carriers. We own 18 Airbus 320s, one Airbus 340 and one Boeing 737. We have limited our investment to these types of aircraft due to their relative liquidity in the leasing market. Our aircraft lease operations are managed by ORIX Aviation Systems Corporation (ORIX Aviation), based in Ireland. Our two principal markets for automobile operating leases, including car rentals, are Japan and Australia, although we also maintain automobile operating lease operations in several Asian countries.

Precision Measuring Equipment and Personal Computers

Our specialist subsidiary, ORIX Rentec rents precision measuring equipment and personal computers in Japan and selected overseas markets. Our customers include major Japanese and overseas electronics companies.

Our measuring and diagnostic equipment is used mainly in manufacturing facilities and research and development centers. This includes:

- equipment for testing emissions from mobile phones;
- equipment for testing noise emissions;
- equipment for testing compliance of electrical circuitry with prescribed standards;
- laboratory and field use meteorological and environmental testing equipment (pollution monitoring equipment); and
- equipment for monitoring, testing and evaluating the electromagnetic performance of printed circuit boards and the efficiency of microprocessors.

ORIX Rentec maintains a website for the auction of used personal computers and measuring equipment.

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Real Estate and Other

Real estate and other consists primarily of the rental of office buildings, corporate dormitories and residential condominiums. We maintain a portfolio of 55 rental dormitories, 44 owned and 11 managed, which we rent to major corporations in Japan for use by their staff. We also own and operate for rental purposes office buildings, approximately 1,800 apartment units, and a number of other real estate properties, located mainly in or near Tokyo and Osaka.

Installment Loans and Investment Securities

ORIX earns interest income on the installment loans it makes both in Japan and overseas to individuals and corporations. ORIX also earns interest income on its investment in primarily available-for-sale securities. Interest on loans and investment securities accounted for 19% of consolidated revenues for the year ended March 31, 2003. Installment loans made up approximately 44% and investment in securities made up approximately 13% of consolidated operating assets as of March 31, 2003.

The consolidated balance sheets figures for the balance of installment loans and investment in securities include the operating assets of our life insurance operations, but the consolidated statements of income figures for interest on loans and investment securities exclude revenues from life insurance operating assets. Income stemming from investment related to the life insurance business, including interest income from installment loans and investment securities, and gains on the sale of investment securities, as well as real estate income related to the life insurance operations, is included in life insurance premiums and related investment income in the consolidated statements of income.

Loans to Consumer Borrowers in Japan

We have three distinct categories of consumer lending in Japan: housing loans, card loans and other lending. We have been providing housing loans since 1980 and new housing loans have been made by ORIX Trust and Banking since 1999. A portion of these loans are to individuals who purchase real estate for investment purposes and a portion are loans to individuals who purchase real estate for self-occupancy purposes. These loans are mainly secured by first or second mortgages. The card loans are uncollateralized revolving loans with a maximum limit of ¥3 million. The other category refers principally to loans made in connection with our securities brokerage operations.

Loans to Corporate Borrowers in Japan

Loans to corporate borrowers in Japan include loans to real estate-related companies, as well as general corporate lending. Corporate lending covers the spectrum of Japanese corporate lending, including loans to the amusement industry, loans to consumer finance companies, and loans to the Japanese retail sector. These loans are secured primarily by real estate collateral.

Loans to Overseas Borrowers

Our overseas installment loans include corporate loans, in particular commercial mortgages, in the United States, as well as ship finance out of Hong Kong and Singapore.

Investment in Securities

We maintain a sizable investment in various securities. The largest segment of this portfolio is the investment of a substantial portion of the reserves in our life insurance operations, which is approximately 50% of our total investment in securities as of March 31, 2003. These reserves are generally invested in yen-denominated corporate debt. Overseas, we also have substantial holdings in corporate debt in the United States, and to a lesser extent, emerging markets in Latin America, Eastern Europe and Southeast Asia. A substantial portion of the interest income on investment securities was made on commercial mortgage-backed securities and high yield bonds which are held in the United States.

Brokerage Commissions and Net Gains on Investment Securities

All non-interest income and losses (other than foreign currency transaction gain or loss 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. These include the brokerage commissions of ORIX Securities and the net gains on sales of securities other than those sold by ORIX Life Insurance. Traditionally, net gains on investment securities has made up the majority of revenues in this category.

Life Insurance Operations

Life insurance premiums and related investment income come from ORIX Life Insurance, which is a full-line life insurance underwriter, with the total value of insurance contracts in force at March 31, 2003 amounting to ¥3,749 billion. Life insurance premiums and related investment income accounted for 20% of consolidated revenues for the year ended March 31, 2003. A corresponding expense called life insurance costs includes provisions for reserves and the amortization and other costs associated with the life insurance operations.

Premiums from the sale of life insurance are recorded as life insurance premiums, while interest on loans and investment securities, net gains on the sale of securities, and real estate income related to the life insurance operations are included in life insurance related investment income. For details on the assets and revenues associated with the life insurance related investment income, see Item 5. Operating and Financial Review and Prospects Results of Operations Life insurance premiums and related investment income.

Residential Condominium Sales

ORIX Real Estate develops and sells residential condominiums and single dwelling homes in Japan. In the fiscal year ended March 31, 2003 residential condominium sales made up 10% of consolidated revenues. The gross proceeds from the sale of these properties are recognized as revenue in the consolidated statements of income with a corresponding expense item called costs of residential condominium sales when the property is transferred to the buyer.

The assets associated with residential condominium development are primarily advances, which are not included in operating assets.

Interest Income on Deposits

Interest income on deposits not included in other categories of revenues includes principally interest on bank deposits.

Other Operations

Other operating revenues are generated from a variety of businesses that include commissions for the sale of insurance and other financial products, revenues from loan servicing and building maintenance, gains on the sale of primarily real estate acquired for the purpose of resale, and revenues from golf courses, a training facility and hotels.

The revenues from these operations are recorded on our consolidated statements of income as other operating revenues and made up approximately 12% of consolidated revenues in the fiscal year ended March 31, 2003. There is also a corresponding expense called other operating expenses .

The assets associated with other operations are other operating assets such as hotels, golf courses, a training facility and real estate or other assets bought for the purpose of resale, and advances in connection with property developments.

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Profile of Business by Segment

Our reportable segments are based on Financial Accounting Standards Board, or FASB, Statement No. 131. They are identified based on the nature of services for operations in Japan and on geographic area for overseas operations. For discussion of the basis for the breakdown of segments, refer to Note 29 in Item 18. Financial Statements.

The following table shows a breakdown of revenues by segment for the years ended March 31, 2001, 2002 and 2003.

	Years ended March 31,		
	2001	2002	2003
	(In millions of yen)		
Segments in Japan			
Corporate Finance	¥113,113	¥118,794	¥125,560
Equipment Operating Leases	61,677	67,319	67,655
Real Estate-Related Finance	24,262	31,582	51,589
Real Estate	48,438	85,516	104,454
Life Insurance	157,636	154,296	138,511
Other	36,215	49,139	61,238
Sub-Total	441,341	506,646	549,007
Overseas Segments			
The Americas	79,397	75,195	57,909
Asia and Oceania	48,735	56,677	55,425
Europe	15,151	14,716	13,311
Sub-Total	143,283	146,588	126,645
Total Segment Revenues	584,624	653,234	675,652
Reconciliation of Segment Totals to Consolidated Amounts	1,525	5,228	7,993
Total Consolidated Amounts	¥586,149	¥658,462	¥683,645

Business Segments in Japan

Operations in Japan are conducted by ORIX and a number of subsidiaries and affiliates. In general, our sales staff in Japan sells the full range of our products, including the cross-selling of products of subsidiaries such as ORIX Auto Leasing, ORIX Rentec and ORIX Life Insurance. 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 companies. However, we have expanded our client base to include large corporations in some business segments, such as the rental of precision measuring equipment and real estate-related finance. We have also targeted individual customers as a growth area in various business segments, such as consumer card loans, housing loans, car rentals and life insurance.

Corporate Finance

ORIX s corporate finance operations are primarily direct financing leases and installment loans, other than real estate loans, to corporate customers as well as the sale of a variety of financial products and other fee business. The activities in this segment are conducted primarily through the four sales headquarters of ORIX Corporation the Tokyo Sales Headquarters, the Kinki (Osaka) Sales Headquarters, the District Sales Headquarters and the OQL Sales Headquarters. ORIX Auto Leasing and IFCO are major subsidiaries in this segment specializing in automobile leasing.

Cross-selling of Financial Solutions

The sales people in the four sales headquarters form the core of our sales and distribution network in Japan. Leasing and lending activities are often the first contact we have with our customers. These activities provide us with the opportunity to get to know our clients, make an assessment of their particular needs, and offer a variety of solutions responding to the varying needs of our customers, including leases, loans, life and non-life insurance, investment products and building maintenance. As this cross-selling strategy has evolved in recent years, we have attempted to develop capabilities to provide financial solutions that investment banks provide to help companies liquidate assets, merge with other companies or restructure their operations.

Automobile Leasing

As of March 31, 2003, we had a total of approximately 423,000 vehicles under lease in Japan. Based on the year ended March 31, 2002 data of the Japan Automotive Leasing Association, we had a market share of approximately 15% of the automobile leasing industry in Japan, which we believe made us the largest automobile lessor in Japan.

In order to diversify our access to secondary markets and increase the returns on the eventual sales of vehicles from our fleet when leases expire, we have established four specialist automobile auction sites in Japan. We sold approximately 40,000 used vehicles in fiscal 2003 through these sites.

Equipment Operating Leases

The equipment operating lease business principally comprises the rental of precision measuring equipment and personal computers to corporate customers as well as automobile rental operations. The operations are conducted primarily by ORIX Rentec and ORIX Rent-A-Car Corporation (ORIX Rent-A-Car).

We have developed a strong position in the precision measuring equipment and personal computer rental sector in Japan through our subsidiary ORIX Rentec, which has an inventory of more than 380,000 pieces of precision measuring and diagnostic equipment. Our customers include major Japanese and overseas electronics companies. We have also established subsidiaries in Singapore, Malaysia, South Korea and the United Kingdom to provide such services to clients overseas. For a description of the types of equipment leased, see Item 4. Operating Leases.

ORIX Rent-A-Car, together with our other car rental subsidiaries, owned a total of 28,900 vehicles in Japan, serviced by a network of 357 branches as of March 31, 2003, which makes us the second largest car rental company in Japan according to data of the All Japan Rent-A-Car Association.

Real Estate-Related Finance

ORIX s real estate-related finance business encompasses real estate loans to corporate customers and housing loans to individuals. Loans to most corporate customers not in the real estate business are included in the corporate finance segment, even when these loans are secured by real estate. ORIX is also expanding its business involving loan servicing, non-recourse loans, commercial mortgage-backed securities, and real estate investment trusts. The activities in this segment are conducted primarily by the Real Estate Finance Headquarters of ORIX, ORIX Trust and Banking, ORIX Asset Management and Loan Services Corporation and ORIX Asset Management Corporation.

In April 1998, we acquired ORIX Trust and Banking (then Yamaichi Trust & Bank, Ltd.). This acquisition provided us with a general banking license, which allows us to accept deposits, and a trust business license. The bank s major operations include the provision of housing loans, including loans to individuals looking to purchase real estate for investment purposes. As of March 31, 2003, ORIX Trust and Banking had deposits of ¥262 billion and housing loan assets of ¥325 billion.

The market for real estate finance in Japan has undergone substantial changes since the latter half of the 1990s as a result of deregulation and structural changes in the economy. Our activities in this area have followed these changes and in recent years the Real Estate Finance Headquarters has focused on non-recourse lending and commercial mortgage-backed securities, while specialist subsidiaries such as ORIX Asset Management and Loan Services Corporation and ORIX Asset Management Corporation are active in loan servicing and asset management of real estate investment trusts, respectively.

Real Estate

ORIX s real estate business consists of both the development and sale of real estate, as well as the management, operation and maintenance of real estate properties. ORIX Real Estate is the subsidiary primarily responsible for activities in this segment.

We own, operate and provide management services, including tenant and rental income management, for a number of commercial and other properties in Japan, including a corporate training facility, golf courses and hotels. Our real estate development activities cover both residential and commercial property markets in Japan. We sold approximately 1,900 residential apartment units in the year ended March 31, 2002 and approximately 2,300 units in the year ended March 31, 2003. We have also been involved in the development of commercial facilities and office buildings. The expertise that we have accumulated in the Japanese real estate market for nearly two decades coupled with our financing capabilities allow us to provide one-stop development packages.

Following our acquisition of Nihon Jisho Corporation (Nihon Jisho) in April 2001, we also own office building and residential property owned and operated by Nihon Jisho and land for subdivision development, and have subsidiaries involved in building maintenance and real estate appraisal business. In August 2001, we acquired a majority interest of Kansai Maintenance Corporation (Kansai Maintenance), a building maintenance company through a tender offer and in March 2002, we acquired the remaining shares of the company through a share exchange. The building maintenance subsidiary of Nihon Jisho and Kansai Maintenance were combined under a new company called ORIX Facilities Corporation (ORIX Facilities) in May 2002.

Life Insurance

The life insurance segment consists of direct and agency life insurance sales and related activities conducted by ORIX Life Insurance. ORIX Life Insurance traditionally sold its insurance products through agents, including ORIX as well as independent agents, to primarily corporate customers.

In September 1997, ORIX Life Insurance initiated ORIX Direct, which was Japan s first life insurance offered through direct channels. Since this insurance is sold via newspaper advertisements, the Internet, and other direct channels, administration expenses such as agent fees and marketing office expenses are lower than for agency-based businesses. In an attempt to further strengthen marketing activities and improve administrative efficiency, ORIX Financial Alliance Corporation (OFA) was established in October 2002 as an agency for both life and casualty insurance products, including those from ORIX Life Insurance. OFA also offers financial advisory and financial planning services that cover both corporate and retail customers.

Other

The other segment encompasses consumer card loan operations, venture capital operations, securities transactions and new businesses. The activities in this segment are conducted primarily by ORIX Credit, ORIX Club Corporation (ORIX Club), ORIX Capital Corporation (ORIX Capital) and ORIX Securities.

The largest single business in this segment in terms of revenues and operating assets is the consumer card loan operations of ORIX Credit and ORIX Club. The main product of ORIX Credit is its uncollateralized revolving card loans, in particular the VIP Loan Card, which offers customers reasonable loan rates along with a great deal of convenience in withdrawing and repaying funds. For example, money can be withdrawn from approximately 130,000 cash dispensers and ATMs throughout Japan, and partnerships have been formed with a number of banks to allow convenient repayment at about 35,000 ATMs operated by financial institutions throughout Japan. In addition, as part of its card loan business, ORIX Credit has started a guarantor s service provided to regional banks that are attempting to expand consumer finance operations. As of March 31, 2003, ORIX Credit had agreements with 61 such regional financial institutions to provide such services.

In 1983, we established ORIX Capital to provide venture capital and related consulting services to companies that are potential candidates for initial public offerings in Japan. As of March 31, 2003, assets under ORIX Capital s management were ¥24,071 million, consisting mainly of equity securities.

ORIX Securities is engaged primarily in equity and other securities brokerage activities. Taking advantage of the deregulation of brokerage commissions in October 1999, ORIX Securities offers discount brokerage services to individual investors. As part of this move to further develop our activities, ORIX Securities in May 1999 began to offer ORIX ONLINE, an equity trading service available via telephone and the Internet. ORIX Securities has seats on the Tokyo Stock Exchange and the Osaka Securities Exchange.

A major affiliate in this segment is The Fuji Fire and Marine Insurance Company, Ltd (Fuji Fire and Marine). For details of our investment in this company, see Note 11 in Item 18. Financial Statements.

Overseas Business Segments

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 affiliates. As of March 31, 2003, we operated in 22 countries outside Japan through 110 subsidiaries and affiliates. Our overseas operations employ approximately 3,100 employees, and include a network of 175 offices.

The Americas

ORIX s principal businesses in the Americas segment are direct financing leases, corporate lending, commercial mortgage-backed securities-related business, real estate development and securities investment.

After opening a representative office in 1974, we commenced formal operations in the United States in 1981 when we established a wholly-owned subsidiary, ORIX USA Corporation (OUC). OUC acts as the holding company for other operations in the United States and has operations in global finance, trade finance and venture finance.

ORIX Real Estate Equities, Inc. (OREE) is a real estate development and management company we acquired in 1987 and its operations focus on three main activities:

- build-to-suit development of retail, industrial and office projects,
- the acquisition of office and other properties that offer value-enhancement opportunities, and
- asset and property management.

These activities cover properties in our own portfolio as well as third party properties.

OFS, formerly ORIX Credit Alliance, Inc., specializes in equipment finance and corporate lending. Operations of OFS are conducted by four major business groups.

- The Equipment Finance Group provides equipment financing to dealers and distributors, national manufacturers, and end-users in industries such as construction and transportation.
- The Business Credit Group offers secured loans to middle market companies that need funds for acquisitions, growth, working capital, capital expenditures or recapitalization.

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The Structured Finance Group provides financing and leasing of capital equipment, turnkey financing of facilities for a wide variety of businesses, and other creative tax and synthetic lease products for the medium-to large-ticket market.

The Public Finance Group provides equipment, real estate and project financing for state and local governments as well as federal agencies.

ORIX Capital Markets, LLC (OCM) (formerly known as ORIX Real Estate Capital Markets, LLC) was established in 1997 as a joint venture between ORIX and Bank One Corporation, a major U.S. super-regional bank. In 1999, OCM became a 100% subsidiary of ORIX. OCM s major activities include:

investing in subordinated commercial mortgage backed securities, focusing on BB and lower rated classes of bonds,

providing loan servicing and asset management and loan workout services for corporate loans, and

investing and trading fixed income corporate securities with less than investment grade ratings.

In addition to the 100%-owned subsidiaries in the United States, we own 29% of Stockton Holdings Limited (SHL), a company headquartered in Bermuda. SHL is active in reinsurance and investment.

Asia and Oceania

Principal businesses in Asia and Oceania involve direct financing leases, operating leases for transportation equipment, corporate lending and securities investment.

In 1971 we established our first overseas office in Hong Kong, and had 63 subsidiaries and affiliates in this segment, which includes the Middle East and North Africa, as of March 31, 2003. These companies do business in 18 countries. During about 30 years that we have maintained a presence in Asia, ORIX Asia, based in Hong Kong, has been the base for our expansion and operations in the region. Singapore has been another center for our activity in the region, and we have substantial operations in Australia, Malaysia and Indonesia as well.

Some of the specialist leasing operations that we have developed in Japan are also being developed in markets in this segment. For example, we have specialized auto leasing operations in countries such as Australia, Indonesia, Singapore, Taiwan, Malaysia and Thailand. In December 2002, we also made an investment in Korea Life Insurance Co., Ltd. (Korea Life), which is accounted for by the equity method. For details of this investment, see Note 11 in Item 18. Financial Statements.

We have also expanded our activities into and throughout the Middle East and North Africa through our affiliate ORIX Leasing Pakistan Limited.

Europe

ORIX s principal businesses in Europe center on aircraft operating leases, corporate loans, and securities investments.

We initiated our activities in Europe in 1974, when we established a liaison office in London. We conduct our current European operations principally through ORIX Europe Limited, ORIX Ireland Limited, established in 1988 as a finance vehicle for our European operations, ORIX Aviation in Ireland which has marketing, technical, legal and administrative teams to develop our international aircraft operating lease business, and ORIX Polska S.A., an equipment leasing company in Poland.

The following is a directory of divisions of ORIX Corporation, and our major subsidiaries and affiliates, broken down by segments. The table includes the name of each division or company, their principal business, the year in which the company was established or acquired and the percent of equity owned by ORIX.

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Directory (By Segments)

Operations in Japan

Unless otherwise indicated, the following companies are incorporated in Japan.

	Principal Business	Established (Acquired)	ORIX Ownership
Corporate Finance			
ORIX Corporation		Apr. 1964	
Tokyo Sales Headquarters	Leasing, Lending,		
Kinki (Osaka) Sales Headquarters	Other Financial Services		
District Sales Headquarters			
OQL Headquarters			
ORIX Alpha Corporation	Leasing, Lending	Mar. 1972	100%
ORIX Auto Leasing Corporation	Automobile Leasing	Jun. 1973	100%
Sun Leasing Corporation	Medical Equipment Leasing	(Sep. 1999)	100%
Senko Lease Corporation	Automobile Leasing	(Jul. 2001)	100%
IFCO Inc.	Automobile Leasing	(Sep. 2001)	80%
Momiji Lease Corporation	Leasing	(Mar. 2002)	95%
Nittetsu Lease Co., Ltd.	Leasing	(Jul. 2002)	90%
Nittetsu Leasing Auto Co., Ltd.	Automobile Leasing	(Jul. 2002)	91%
Equipment Operating Leases			
ORIX Rentec Corporation	Precision Measuring & OA	Sep. 1976	100%
ORIX Rentec (Singapore) Pte. Limited (Incorporated in Singapore)	Equipment Rentals	Oct. 1995	100%
ORIX Rentec (Malaysia) Sdn. Bhd. (Incorporated in Malaysia)		Nov. 1996	94%
ORIX Rentec (Korea) Corporation (Incorporated in South Korea)		Apr. 2001	100%
ORIX Rentec Limited (Incorporated in the U.K.)		Jul. 2001	100%
ORIX Rent-A-Car Corporation	Automobile Rentals	Feb. 1985	100%
Real Estate-Related Finance			
ORIX Corporation		Apr. 1964	
Real Estate Finance Headquarters	Real Estate-Related Finance		
ORIX Trust and Banking Corporation	Trust & Banking Services, Housing Loans	(Apr. 1998)	100%

ORIX Asset Management & Loan Services Corporation	Loan Servicing	Apr. 1999	100%
ORIX Asset Management Corporation	REIT Management	Sep. 2000	100%
Real Estate			
ORIX Corporation		Apr. 1964	
Real Estate Business Headquarters	Real Estate Development & Management		
ORIX Estate Corporation	Real Estate & Leisure Facility Management	(Dec. 1986)	100%
BlueWave Corporation	Training Facility & Hotel Management	Aug. 1991	100%

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	Principal Business	Established (Acquired)	ORIX Ownership
ORIX Real Estate Corporation	Real Estate Development & Management	Mar. 1999	100%
ORIX Golf Corporation	Golf Course Development & Management	Jul. 2000	100%
ORIX Facilities Corporation	Building Maintenance Services	(Sep. 2001)	85%
Life Insurance			
ORIX Life Insurance Corporation	Life Insurance	Apr. 1991	100%
ORIX Financial Alliance Corporation	Life Insurance Agency	Oct. 2002	100%
Others			
ORIX Corporation		Apr. 1964	
Investment Banking Headquarters(1)	Investment Banking		
ORIX Insurance Services Corporation	Casualty & Life Insurance Agency	Sep. 1976	100%
ORIX Credit Corporation	Consumer Loans	Jun. 1979	100%
ORIX Capital Corporation	Venture Capital	Oct. 1983	100%
ORIX Securities Corporation	Securities Brokerage & Online Trading	(Mar. 1986)	100%
ORIX Baseball Club Co., Ltd.	Professional Baseball Team Management	(Oct. 1988)	100%
ORIX COMMODITIES Corporation	Securities & Futures Trading	Jan. 1990	100%
ORIX Club Corporation	Consumer Loans	Aug. 1990	100%
ORIX Eco Services Corporation	Environmental Management & Consulting Services	Apr. 1998	100%
ORIX Interior Corporation	Sale & Manufacture of Interior Furnishings	Oct. 1998	100%
ORIX Investment Corporation	Alternative Investment	Jun. 1999	100%
ORIX Global Investment Management Corporation	Investment Management	Mar. 2002	100%
Casco Co., Ltd.	Consumer Loans	(May 1999)	40%
ORIX Insurance Planning Corporation	Agency Sales & Development of Non-Life Insurance Products	Sep. 1999	50%

Aozora Card Co., Ltd.	Consumer Loans	Dec. 2001	40%
The Fuji Fire and Marine Insurance Company Limited	Non-life Insurance	(Mar. 2002)	22%
ORIX Headquarter Functions (Not included in Segment Financial Information)			
ORIX Corporation		Apr. 1964	
International Headquarters	Administration of Overseas Activities		
ORIX Computer Systems Corporation	Software Engineering & Systems Management	Mar. 1984	100%

(1) Of the businesses conducted by the Investment Banking Headquarters, the aircraft finance and ship finance activities are recorded in the Europe and Asia and Oceania segments, respectively.

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	Principal Business	Established (Acquired)	ORIX Ownership
ORIX Create Corporation	Coordination of Advertising Activities	Jul. 1988	100%
ORIX Management Information Center Corporation	Accounting & Administration Services	Oct. 1999	100%
ORIX Callcenter Corporation	Call Center	Nov. 1999	100%
ORIX Human Resources Corporation	Outplacement Services	Feb. 2002	100%

Overseas Operations

	Country of Incorporation	Principal Business	Established (Acquired)	ORIX Ownership
North America				
ORIX USA Corporation	U.S.A.	Leasing and Finance	Aug. 1981	100%
ORIX Real Estate Equities, Inc.	U.S.A.	Real Estate Development & Management	(Aug. 1987)	100%
ORIX Financial Services, Inc.	U.S.A.	Leasing, Lending	(Sep. 1989)	100%
ORIX Capital Markets, LLC	U.S.A.	Loan Servicing, Corporate Debt Investment	Apr. 1997	100%
Stockton Holdings Limited	Bermuda	Reinsurance and Investment	(Jul. 1989)	29%
Asia and Oceania				
ORIX Leasing Singapore Limited	Singapore	Leasing, Hire Purchase	Sep. 1972	50%
ORIX Investment and Management Private Limited	Singapore	Venture Capital	May 1981	100%
ORIX CAR RENTALS PTE. LTD.	Singapore	Automobile Leasing & Rentals	Sep. 1981	45%
ORIX Maritime Corporation	Japan	Ship Operation Management	Nov. 1977	100%
ORIX Asia Limited	China (Hong Kong)	Leasing, Investment Banking	Sep. 1971	100%
ORIX Taiwan Corporation	Taiwan	Leasing, Hire Purchase	Oct. 1982	95%
ORIX Auto Leasing Taiwan Corporation	Taiwan	Automobile Leasing	Apr. 1998	100%

ORIX METRO Leasing and Finance Corporation	Philippines	Leasing, Automobile Leasing	Jun. 1977	40%
Thai ORIX Leasing Co., Ltd.	Thailand	Leasing	Jun. 1978	49%
ORIX Auto Leasing (Thailand) Co., Ltd.	Thailand	Automobile Leasing & Rentals	(Aug. 2001)	85%
ORIX Leasing Malaysia Berhad	Malaysia	Leasing, Lending, Hire Purchase	Sep. 1973	80%
ORIX Car Rentals Sdn. Bhd.	Malaysia	Automobile Rentals	Feb. 1989	28%
PT. ORIX Indonesia Finance	Indonesia	Leasing, Automobile Leasing	Apr. 1975	83%

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	Country of Incorporation	Principal Business	Established (Acquired)	ORIX Ownership
INFRASTRUCTURE LEASING & FINANCIAL SERVICES LIMITED	India	Investment Banking, Corporate Finance	(Mar. 1993)	21%
ORIX Auto and Business Solutions Limited	India	Automobile Leasing	Mar. 1995	58%
IL&FS Education & Technology Services Limited	India	Online Education	(Aug. 2000)	30%
Lanka ORIX Leasing Company Limited	Sri Lanka	Leasing, Automobile Leasing	Mar. 1980	30%
ORIX Australia Corporation Limited	Australia	Leasing, Automobile Leasing & Rentals	Jul. 1986	100%
AUSTRAL MERCANTILE COLLECTIONS PTY LIMITED	Australia	Debt Collection Services	Nov. 1998	50%
ORIX New Zealand Limited	New Zealand	Leasing, Automobile Leasing & Rentals	Aug. 1988	100%
ORIX Leasing Pakistan Limited	Pakistan	Leasing, Automobile Leasing, Lending	Jul. 1986	50%
ORIX Investment Bank Pakistan Limited	Pakistan	Investment Banking	Jul. 1995	27%
ORIX Leasing Egypt SAE	Egypt	Leasing	Jun. 1997	34%
Saudi ORIX Leasing Company	Kingdom of Saudi Arabia	Leasing, Automobile Leasing	Jan. 2001	25%
MAF ORIX Finance PJSC	U.A.E.	Leasing	Apr. 2002	36%
Korea Life Insurance Co., Ltd.	Korea	Life Insurance	(Dec. 2002)	17%
Europe				
ORIX Europe Limited	U.K.	Corporate Finance	Nov. 1982	100%
ORIX Corporate Finance Limited	U.K.	Corporate Finance	Sep. 1989	100%
ORIX Ireland Limited	Ireland	Corporate Finance, Accounting & Administration Services	May 1988	100%
ORIX Aviation Systems Limited	Ireland	Aircraft Leasing	Mar. 1991	100%
ORIX Aircraft Corporation	Japan	Aircraft Leasing	May 1986	100%

ORIX Polska S.A.	Poland	Leasing, Automobile Leasing	(May. 1997)	100%

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

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

In July 1999, we acquired the lease and rental operations of NEC Home Electronics Lease Ltd., consisting primarily of direct financing lease receivables, for approximately ¥55 billion. These operations were conducted by ORIX Media Supply. Financing lease receivables were subsequently transferred to ORIX, and in April 2001 we sold this subsidiary to Sogo Medical Corporation.

In July 1999, we acquired the remaining stake in Banc One Mortgage Capital Markets, LLC in the United States, previously our joint venture with Bank One Corporation, to increase our securitization capability and ability to service commercial property loans. As a result, investment in securities and installment loans increased $363 million and $149 million respectively. Banc One Mortgage Capital Markets, LLC has been renamed and currently operates as ORIX Capital Markets, LLC.

In September 2000, a consortium led by us, Softbank Corporation and The Tokio Marine and Fire Insurance Company, Ltd. purchased all the shares of common stock of the Aozora Bank, Ltd. (then Nippon Credit Bank of Japan) from the Japanese Deposit Insurance Corporation. We acquired a 14.99% stake in the bank, and our investment amounted to approximately ¥15 billion.

In April 2001, we acquired the operating assets and employees of Nihon Jisho. The assets include office buildings and residential properties owned and operated by Nihon Jisho, land for residential subdivision development, and shares in subsidiaries involved in building maintenance and real estate appraisal businesses. At the date of the acquisition, these assets amounted to ¥23 billion.

In July 2001, we acquired a 100%-owned leasing subsidiary of Senko Co. Ltd, a major logistics company based in Osaka. The acquisition of this subsidiary, with ¥15 billion in total assets, marked our initial entry into the truck leasing market, a strategic priority. Shortly afterward, we significantly expanded on this market entry with the acquisition in September 2001 of an 80% interest in IFCO from Isuzu Motors Limited, which continues to hold the remaining 20% interest. We acquired our 80% interest at a price of ¥20 billion. IFCO is a truck leasing company with approximately 67,000 vehicles under lease and approximately ¥300 billion in total assets as of September 30, 2001.

We purchased ¥132 billion of housing loans from Asahi Mutual Life Company in December 2001.

In March 2002, we acquired 22.14% of the outstanding common shares of Fuji Fire and Marine. Under this agreement, the American International Group (AIG) also obtained a similar 22.14% stake in Fuji Fire and Marine. We purchased 108,768,000 shares at ¥166 per share, for approximately ¥18 billion.

Prior to and during the year ended March 31, 2002, we purchased approximately ¥100 billion of real estate in connection with our establishment of a real estate investment trust sponsored by ORIX (the JREIT), the investment units of which have been listed on the Tokyo Stock Exchange in June 2002. This real estate was included in other operating assets in the fiscal year ended March 31, 2002. Subsequent to completion of the offering of investment units of the JREIT, these assets no longer remain on our consolidated balance sheets. We retained approximately 20% of the investment units of the JREIT. In connection with the public offering of the investment units, we received the proceeds of approximately ¥50 billion.

In March 2002, we reached an agreement with Hiroshima Sogo-Bank, Ltd. to form a strategic business alliance in which we purchased 95% of the outstanding shares of Hiroshima Sogo Leasing Co., Ltd. (renamed Momiji Lease Corporation) with Hiroshima Sogo-Bank, Ltd. retaining the remaining 5%. Momiji Lease Corporation had assets of approximately ¥27 billion at the time of purchase.

In May 2002, we announced that we had reached a basic agreement with Nippon Steel Corporation and Nippon Steel Trading Co., Ltd. to purchase 90% and 10% of the outstanding shares of Nittetsu Lease (Nittetsu Lease) and Nittetsu Leasing Auto Co., Ltd., respectively, from Nippon Steel Trading Co.,

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Ltd. The purchase was completed in July 2002. Nittetsu Lease had a book value of total assets of approximately ¥145 billion as of July 31, 2002.

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

In March 2003, we acquired a 100% interest in KDDI Development Corporation (KDDI Development), a real estate company formerly owned by KDDI CORPORATION, for a purchase price of ¥15 billion. KDDI Development had assets of approximately ¥44 billion as of March 31, 2003.

In general, we seek to expand and deepen our product and service offerings and enhance our financial performance by pursuing acquisition opportunities. Particularly in the current economic market environment in Japan, we believe there are numerous attractive potential acquisitions. 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 may continue to make selective investment 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 factories or facilities that manufacture products. There are no factories currently under construction, and we have no plans to build any factories in the future.

In November 2002, ORIX Eco Services signed an agreement to partially fund and oversee the operations of a waste processing and recycling plant in Saitama Prefecture in Japan through a private finance initiative (PFI) structure. The plant is expected to be completed in 2006, and a subsidiary of ORIX Eco Services will be the operator of the plant. In addition, we are also involved in a PFI for the construction of a hospital in Kochi Prefecture that is scheduled to open in 2005. We are expected to be involved in the management of employee facilities related to the hospital.

Our most important facility that we own is our headquarters building. Our headquarters is in Shiba, Minato-ku, Tokyo and covers a floor space of 19,662 square meters. We may build or acquire additional offices if the expansion of our business so warrants.

Our operations are generally conducted in leased office space in numerous cities throughout Japan and the other countries in which it operates. 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, including one used as our principal executive offices, apartment buildings and recreational facilities for our employees with an aggregate value as of March 31, 2003 of ¥65,960 million.

Seasonality

Our business is not 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. Our competitors include independent and captive leasing and finance companies and commercial banks. 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 a number of other geographical markets has increased in recent years because of deregulation and increased liquidity. The markets for most of our products are characterized by a large number of competitors. However, in some of our markets, such as automobile leasing and small-ticket leasing, competition is relatively more concentrated.

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 specialize in specific products, product ranges, or geographical regions. We have established a nationwide network and distribute a full range of leasing and other financial products. Similarly, we believe our array of other financial products and services, and the seamless way in which they are presented, make us unique in the Japanese marketplace. This ability to provide comprehensive financial solutions through a single sales staff and cross-sell a variety of products is one of our competitive advantages. Credit tightening has led to a general reduction in aggressive marketing from most Japanese competitors. We believe that this factor, coupled with our ability to access funds directly from the capital markets, will allow us to expand our leasing operations in Japan as consolidation proceeds within the industry.

Recently, a number of non-Japanese finance companies have established bases in Japan, or are in the process of increasing sales and marketing initiatives. Many of these companies compete with us in specific fields. However, in general we maintain the same competitive advantage that we enjoy over many Japanese competitors in that we offer a range of products and services that offer customers more than a simple leasing product. Furthermore, our established network of sales offices and experience in the Japanese marketplace provides us with advantages over foreign leasing and asset finance firms entering the Japanese marketplace.

In small-ticket leasing we compete more with credit companies than with traditional leasing firms. These companies, like us, have significant experience and expertise in handling a large volume of small-ticket transactions. We use our nationwide coverage and ability to offer a broad range of financial products and services to compete with these firms.

Recent consolidation and alliances among life insurance companies in Japan have increased competition within the insurance industry. In addition, as a result of deregulation, Japanese banks are now permitted to sell certain types of insurance directly to individuals. Certain banks are making efforts to expand this business. At present, banks are permitted to sell only limited types of products and we believe the impact on our life insurance operations is limited. However, if the types of products banks can sell are increased in the future, the banks may become major competitors. Also, if existing Japanese life insurers are acquired by foreign insurers, such foreign insurers would gain access to established networks of sales agents.

In real estate-related finance, we compete with a variety of Japanese and foreign competitors. In the provision of non-recourse loans, our major competitors are Japanese banks, and to a lesser extent, foreign investment banks. In certain sectors of the market, there is very intense rate competition, especially from Japanese banks. We believe our strength lies in our ability to accurately analyze the 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 customer network in Japan to provide such loans to a broad range of customers. However, we cannot be sure that we can compete in all sectors of the market.

For the purchase and servicing of distressed assets, we compete primarily with foreign investment banks and equity funds, although some Japanese companies are also active in this business. In general, competition is strong in this business.

For housing loans, we have focused on a particular market niche, loans to individuals that purchase rental properties for investment purposes and loans to individuals that do not meet the requirements of major banks or the Japanese government s Housing and Loan Corporation. In this field, competitors include only a limited number of non-bank financial institutions and banks. However, certain other banks have indicated their intention to enter this market, and as a result, competition may intensify.

For condominium developments, we compete with a large number of both small and large Japanese development companies. We have been able to take advantages of our quick access to funding to reduce the time required to complete developments, and we outsource most of the design, construction and sales promotions. In addition, we have focused on differentiating ourselves from others by providing what we believe to be unique designs and functions for each development. 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.

Regulation

We are incorporated under the Commercial Code and our corporate activities are governed by the Commercial Code.

There is no specific regulatory regime in Japan which governs the conduct of our direct financing lease and operating lease businesses. Our installment loan business is regulated by two principal laws which also regulate the activities of credit card providers: the Acceptance of Contributions, Money and Interest Law and the Regulation of Moneylending Business Law.

The Moneylending Business Law requires all companies engaged in the money lending business, whether they are installment finance companies, leasing companies, credit card companies or specialized consumer loan finance companies, to register with the relevant authorities. As registered moneylenders, our registered companies are regulated by the Financial Services Agency, which has the right to review registered moneylenders operations and inspect their records to monitor compliance with the provisions of the Moneylending Business Law. The Financial Services Agency has the authority, and is obliged, to cancel a registration upon substantial noncompliance with law, failure to comply with some administrative orders and under other circumstances.

In Japan, as part of our real estate operations, we are required to obtain a license from the Minister of Land, Infrastructure and Transport and from prefectural governors under the Building Lots and Building Transaction Law for conducting transactions involving land and buildings, including the buying and selling of land or buildings, exchanging such and acting as an agent for the purchase and sale, exchange or lease of land or buildings. Each of ORIX, ORIX Real Estate and ORIX Alpha has obtained this license.

The insurance industry in Japan is regulated by the Insurance Business Law. Insurance business may not be carried out without a license from the Prime Minister. There are two kinds of licenses related to insurance businesses: one for life insurance businesses and another for non-life insurance businesses. The same entity cannot obtain both of these licenses. In general, ORIX Life Insurance, as an insurance company, is prohibited from engaging in any other activity. Insurance solicitation which we conduct is also governed by the Insurance Business Law. We are registered as a sales agent with the Financial Services Agency.

We operate our securities business through ORIX Securities. The Securities and Exchange Law of Japan (the Securities and Exchange Law) and related laws and regulations apply to the securities industry in Japan. The Securities and Exchange Law regulates both the business activities of securities companies and the conduct of securities transactions. ORIX Securities is subject to these and other laws and regulations. Violation of these provisions could result in sanctions against ORIX Securities or our officers and employees.

General banking and trust businesses, which are operated by our banking subsidiary, ORIX Trust and Banking, are also regulated. In general, the Banking Law governs the general banking business and the Trust Law and the Trust Business Law govern the trust business. These banking businesses may not be carried out without a license from the Prime Minister and are supervised by the Financial Services Agency.

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The Law for Special Measures Concerning the Debt Management and Collection Business (the Servicer Law), which was enacted in 1998, allows companies meeting certain specified criteria to obtain a license to manage and collect certain assets. At the time of enactment, the consumer loans did not fall within the definition of qualifying assets such that the Servicer Law was essentially not applicable to the servicing of consumer loans. The amendments to the Servicer Law, in effect since September 1, 2001, have expanded the definition of assets to include (i) loan receivables owned by moneylenders which are registered under the Money Lending Business Law, (ii) monetary receivables owned by certain special purpose companies incorporated for the special purpose of collecting and managing the specified assets, and (iii) monetary receivables, regardless of the owner thereof, in respect of which insolvency proceedings have been commenced.

ORIX Asset Management, a wholly-owned subsidiary of ORIX Corporation, is registered under the Laws Concerning Investment Trusts and Investment Corporations (the Investment Trust Law) as an asset manager for JREITs. Under the Investment Trust Law, investment trusts and investment corporations may only make investments that are specifically prescribed by law. Real estate was not among the prescribed investments until November 2000. Permitted real estate investments are not limited to physical real estate, but include investments in specifically prescribed real estate-related rights, such as trust beneficiary interests in real estate. Units can be listed on a stock exchange and are eligible for certain tax benefits, provided they meet applicable requirements under Japanese law. JREITs which are listed on the Tokyo Stock Exchange may only make investments permitted by the JREIT listing rules of the Tokyo Stock Exchange and the rules of the Investment Trusts Association. Investment corporations must register with the Financial Services Agency prior to commencing their investment activities.

ORIX Global Asset Management Corporation (OGAM) has obtained permission from the Prime Minister to act as a provider and agent of investment trusts under the Law Concerning Investment Trusts and Investment Corporations. In addition, OGAM registered with the Prime Minister and conducts investment advisory services under the Law Concerning Restrictions, etc., on an Investment Advisory Business Related to Securities. OGAM has also obtained permission from the Prime Minister to conduct discretionary investment management business.

We are required to obtain permission for selling commodities funds under the Law Regarding Regulation of Business Concerning Commodities Investment. ORIX and ORIX Alpha have each obtained such licenses.

Outside of Japan, some of our businesses are also subject to regulation and supervision in the jurisdictions in which we operate.

Legal Proceedings

We are a defendant in various lawsuits arising in the ordinary course of our business. We aggressively manage our pending litigation and assesses 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.

Item 5. Operating and Financial Review and Prospects

Overview

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

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We are engaged principally in financial service businesses. These include leasing and corporate, real estate-related and consumer finance businesses in Japan and in overseas markets, and life insurance in Japan. We earn our revenues mainly from direct financing leases, operating leases and life insurance premiums, as well as interest on loans and investment securities. Our expenses include mainly interest expense, depreciation on operating leases, life insurance costs, selling, general and administrative expenses and provision for doubtful receivables on direct financing leases and probable loan losses. We require funds mainly to purchase equipment for leases, extend loans and invest in securities.

We earn most of our revenues from our operations in Japan. Revenues from overseas operations have also contributed significantly to our operating results in recent periods. Overseas operations generated 22% and 19% of our total revenues in the years ended March 31, 2002 and March 31, 2003, respectively. For a discussion of our business by type of revenue and operating asset, and by segment, see Item 4. Information on the Company Profile of Business by Revenues and Operating Assets and Profile of Business by Segment.

The principal factors affecting our businesses in fiscal 2003 as compared to fiscal 2002 were as follows:

Net income fell 25% to ¥30,243 million in the year ended March 31, 2003. Continued strong growth in real estate-related finance and steady performance of corporate leasing and lending in Japan contributed to profits, but write-downs of long-lived assets totaling ¥50,682 million for certain real estate properties in Japan resulted in the decline. For details of the fiscal 2003 results, see Results of Operations Year Ended March 31, 2003 Compared to Year Ended March 31, 2002.

The principal factors affecting our businesses in fiscal 2002 as compared to fiscal 2001 were as follows:

Net income increased 18%, to ¥40,269 million in the year ended March 31, 2002. While returns from operations in the Americas declined due to restructuring of a leasing subsidiary and write-downs of securities, strong contributions from corporate lending and retail businesses in Japan contributed to the increase in consolidated profits. For details of the fiscal 2002 results, see Results of Operations Year Ended March 31, 2002 Compared to Year Ended March 31, 2001.

For a discussion of trend information, see Results of Operations Year Ended March 31, 2003 Compared to Year Ended March 31, 2002 Segment Information.

Critical Accounting Policies

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 estimate may differ significantly from management s current judgments. We consider the accounting estimates discussed in this section to be critical accounting estimates for ORIX for two reasons. First, the estimates require us to make assumptions about matters that are highly uncertain at the time the accounting estimate is made. Second, different estimates that we reasonably could have used in the relevant period, or changes in the accounting estimate 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.

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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.

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, large balance non-homogeneous loans are 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. Smaller-balance homogeneous loans, including individual housing loans and card loans, and lease receivables are collectively evaluated considering current economic conditions and trends, the value of the collateral 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. When we determine that the likelihood of any future collection is minimal, receivables are charged off.

We review delinquencies or other transactions which are not in compliance with our internal policies as frequently as twice a month in the case of transactions in Japan. Transactions with payments more than 90 days past due are reported to the corporate executive officer responsible for the Investment and Credit Evaluation Group. We stop accruing revenues on direct financing leases and installment loans when principal or interest is past due more than 180 days, or earlier if management determines that it is doubtful that we can collect on direct financing leases and installment loans. The decision 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.

Our charge-off policy is greatly affected by Japanese tax law, which limits the amount of tax-deductible charge-offs. Japanese tax law allows companies to charge off doubtful receivables on a tax-deductible basis only when specified conditions are met. Japanese tax law does not allow a partial charge-off against the total outstanding receivables to an obligor. Japanese regulations also do not specify a maximum time period after which charge-offs must occur.

It is common in the United States for companies to charge-off loans after they are past due for a specific arbitrary period, for example, six months or one year. However, we are required to keep our primary records in accordance with Japanese tax law. Japanese tax law does not allow Japanese companies

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to adopt a policy similar to that in the United States. If we had prepared our accounting records as if each charge-off had occurred at an arbitrary date, the differences in our financial statements would be a reduction in gross receivables, an identical reduction in the allowance for doubtful receivables and a change in the timing of charge-offs. We believe that the most significant of these differences, when comparing ourselves to other non-Japanese companies (particularly U.S. companies), may be the delay in when we record a charge-off. In a period of worsening economic conditions and increasing delinquencies, we may reflect a lower charge-off ratio than we would have, had we applied the charge-off policies used by some other non-Japanese companies.

Impairment of Investment in Securities

When a market decline below cost of an investment in securities is other than temporary we write down the investment to the market value and record the related write-down as an investment loss on our consolidated statements of income. 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,
- 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 has not remained significantly below the carrying value for six months, the decline in market value of a security is based on economic conditions and not just general declines in the related market and where it is considered unlikely that the market value of the 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. These judgments are based on subjective as well as objective factors. The Japanese stock market has experienced significant downturns and volatility during recent years. In view of the diversity and volume of our shareholdings, the declining but volatile equity markets make it difficult to determine whether the declines are other than temporary. This accounting estimate primarily affects our domestic life insurance and other segments as well as all of our overseas segments and securities held by ORIX that are not allocated to individual segments.

However, if we have a significant long-term business relationship with another company, we would also consider the probability of market values recovering within the following six months. As part of this review, we would consider:

- the other company s operating results,
- the other company s net asset value,
- the other company s future performance forecast, and
- general market conditions.

If we believe, based on this review, that the market value of a security may realistically be expected to recover, the loss for that security will continue to be classified as temporary. Temporary declines in market value for securities classified available-for-sale are recorded in other comprehensive income (loss), net of applicable income taxes. If after an additional six months, the market value for that security is still significantly below the acquisition cost or below current carrying value, we would classify the loss for that security as other than temporary and charge the decline in market value against income. For the financial periods ending prior to March 31, 2003, the additional consideration period was twelve months.

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If the financial condition of issuers 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.

In prior years we had generally concluded that a significant decline in the market value of marketable security was other than temporary, and thus should be charged against current earnings, when the market price of the security remained significantly below the carrying value for one year. There were certain cases in which the decline was determined to be other than temporary even though the decline below carrying value had persisted for less than one year. However, for the assessment as of March 31, 2003, we concluded that the sudden and severe decline in the Japanese equity benchmark index as well as other economic factors indicated that it was appropriate to use a shorter period in making the determination. As a result, as of March 31, 2003, we have revised our procedure such that, in general, a significant decline of the market value below the carrying value for a period exceeding six months is considered to be an other than temporary decline and charged to current earnings. We estimate that this revision resulted in an additional charge, on a pretax basis, of ¥1.7 billion during the quarter ended March 31, 2003 as compared to the charge that would have been recorded had the one-year period been applied.

Impairment of Long-lived Assets and Identifiable Intangible Assets

We periodically perform an impairment review for long-lived assets and identifiable intangible assets, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The accounting estimates relating to these assets affect all segments. Factors we consider important which could trigger an impairment review include, but are not limited to, the following:

- significant decline in the market value of an asset,
- a current period operating cash flow loss, except for the starting period of the operation,
- significant underperformance compared to historical or projected operating cash flows,
- significant changes in the manner of the use of an asset, and
- significant negative industry or economic trends.

When we determine that the value of assets may not be recoverable 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 the assets. 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 the future cash flows are expected to be generated by the assets that we review for impairment. As a result of the impairment review, when the sum of the 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 value of the asset exceeds fair value. We determine fair value based on recent transactions involving sales of similar assets or on appraisals prepared internally or externally, or by using other valuation techniques. 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 period 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 and identifiable intangible assets.

Unguaranteed Residual Value for Direct Financing Leases and Operating Leases

We estimate unguaranteed residual values of leased equipment 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 our corporate finance and equipment operating leasing segments and all of our overseas segments. We did not record any write-downs of unguaranteed residual value in fiscal 2002 or fiscal 2003.

Insurance Policy Liabilities and Deferred Policy Acquisition Costs

A subsidiary of ORIX writes life insurance policies to customers. Those policies are characterized as long-duration policies and mainly consist of endowments, term life insurance and whole life insurance. Insurance policy liabilities and reserves are established based on actuarial estimates of the amount of future policyholder benefits. Computation of policy liabilities and reserves necessarily includes assumptions about mortality, lapse rates and future yields on related investments and others factors applicable at the time the policies are written. Management continually evaluates the potential for changes in the estimates and assumptions applied for 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 insurance (deferred policy acquisition costs) and amortized over the respective policy periods in proportion to anticipated premium revenue. Deferred policy acquisition costs, not involving the same level of complexity in measurement as those discussed above, are important to an understanding of significant accounting policies for insurance business. We are required to assess deferred acquisition costs for recoverability. Deferred 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.

Pension Plans

The determination of our projected benefit obligation and expense for our employee pension benefits is 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, disability rates and rates of compensation increases. In accordance with FASB statement No. 87, 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 return on plan assets annually based on the composition of the pension asset portfolios at the beginning of the plan year 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.

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. Discount rates are determined annually on the measurement date. We have lowered the discount rates on our plans in Japan and overseas during each of the past three years ended March 31, 2003.

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

Income Taxes

In preparing our consolidated financial statements we made estimates relating to income taxes of ORIX and our consolidated 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 accounting and 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 net deferred income tax assets. We have recorded a valuation allowance of ¥7,034 million as of March 31, 2003 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.

As of March 31, 2003, a deferred tax liability of ¥8,889 million has not been recognized for ¥84,909 million of undistributed earnings of certain overseas 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 Corporate Auditors and the Audit Committee

Our management has discussed the development and selection of each critical accounting estimate with our Corporate Auditors in June 2003 before shareholders passed a resolution at the general meeting of shareholders held on June 25, 2003 for ORIX to become a Company with Committees. For discussion of the Company with Committees structure, see Item 6. Directors, Senior Management and Employees. The Corporate Auditors reviewed our disclosure relating to each critical accounting estimate in this annual report. In addition, we intend to present for review the accounting estimates that we use to the Audit Committee after the committee is formed.

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Results of Operations

Year Ended March 31, 2003 Compared to Year Ended March 31, 2002

Performance Summary

	Year ended March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Income statement data				
Total revenues	¥658,462	¥683,645	¥ 25,183	4%
Total expenses	585,093	645,562	60,469	10%
Operating income	73,369	38,083	(35,286)	(48)%
Income before extraordinary gain, cumulative effect of a change in accounting principle and income taxes	73,039	46,288	(26,751)	(37)%
Net income	40,269	30,243	(10,026)	(25)%

Total Revenues

	Year ended March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Total Revenues:				
Direct financing leases	¥121,914	¥122,928	¥ 1,014	1%
Operating leases	120,807	127,608	6,801	6%
Interest on loans and investment securities	121,962	131,590	9,628	8%
Brokerage commissions and net gains on investment securities	18,367	10,857	(7,510)	(41)%
Life insurance premiums and related investment income	152,333	138,511	(13,822)	(9)%
Residential condominium sales	58,078	71,165	13,087	23%
Interest income on deposits	1,374	526	(848)	(62)%
Other operating revenues	63,627	80,460	16,833	26%
Total	¥658,462	¥683,645	¥ 25,183	4%

Total revenues for the year ended March 31, 2003 increased by 4% compared with the year ended March 31, 2002. While life insurance premiums and related investment income decreased, interest on loans and investment securities, residential condominium sales, and other operating revenues contributed to overall revenue growth.

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Total Expenses

	Year ended March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Total Expenses:				
Interest expense	¥ 90,348	¥ 71,990	¥(18,358)	(20)%
Depreciation operating leases	77,047	80,565	3,518	5%
Life insurance costs	139,786	125,684	(14,102)	(10)%
Costs of residential condominium sales	49,517	60,769	11,252	23%
Other operating expenses	29,614	41,359	11,745	40%
Selling, general and administrative expenses	126,316	144,271	17,955	14%
Provision for doubtful receivables and probable loan losses	51,367	54,706	3,339	7%
Write-downs of long-lived assets	2,716	50,682	47,966	1766%
Write-downs of securities	19,742	14,325	(5,417)	(27)%
Foreign currency transaction loss (gain), net	(1,360)	1,211	2,571	%
Total	¥585,093	¥645,562	¥ 60,469	10%

Total expenses in the year ended March 31, 2003 increased by 10%. Interest expense decreased due mainly to declines in market interest rates and debt levels, particularly overseas. Operating lease depreciation expense increased, primarily due to an increase in the average balance of assets, but life insurance costs declined in line with lower revenues. Costs of residential condominium sales and other operating expenses increased, corresponding to increased revenues from residential condominium sales and other operating revenues. Selling, general and administrative expenses increased primarily as a result of an increase in the number of consolidated companies as well as increased advertising and administrative costs associated with an increase in retail businesses. We also increased the provision for doubtful receivables and probable loan losses by 7%. We made a provision of approximately ¥5,300 million due to concerns of bankruptcy in the airline industry, particularly in North America. We also substantially increased write-downs of long-lived assets, which totaled ¥50,682 million compared to ¥2,716 million in the previous fiscal year. Write-downs included those in connection with golf courses and other properties including office buildings, rental condominiums, hotels and corporate dormitories. The write-downs of long-lived assets was primarily due to continued and significant declines in the values of these assets amid continued asset deflation in Japan and an uncertain global economic environment.

Operating Income, Income Before Extraordinary Gain, Cumulative Effect of a Change in Accounting Principle and Income Taxes and Net Income

Operating income for the year ended March 31, 2003 decreased 48%, or ¥35,286 million, to ¥38,083 million, primarily due to the recording of a large amount of write-downs of long-lived assets. Nevertheless, income before extraordinary gain, cumulative effect of a change in accounting principle and income taxes decreased by only 37%, or ¥26,751 million, to ¥46,288 million, due to a ¥6,203 million gain in equity in net income of affiliates and a ¥2,002 million gain on sales of affiliates.

Despite the 37% decrease in income before extraordinary gain, cumulative effect of a change in accounting principle and income taxes, net income decreased by only 25%, to ¥30,243 million in fiscal 2003. As of April 1, 2002, we changed our method of accounting for unamortized deferred credits and goodwill resulting from prior business combinations and equity investments in accordance with FASB Statement No. 142 (Goodwill and other intangible assets). The cumulative effect of this change in accounting principle relating to acquisitions up to and including the year ended March 31, 2002 increased net income by ¥1,937 million. Net income was also increased by an extraordinary gain of ¥3,214 million due to the excess of the proportionate fair value of the net assets over purchase price, for our investment in Fuji Fire and Marine made in fiscal 2002. See Item 4. Information on the Company Capital Expenditures and Major M&A Activities. Basic and diluted earnings per share in the year ended

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March 31, 2003 were ¥361.44 and ¥340.95, respectively, compared to ¥489.19 and ¥467.11 in the year ended March 31, 2002.

Operating Assets

	As of March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Operating assets				
Investment in direct financing leases	¥1,658,669	¥1,572,308	¥ (86,361)	(5)%
Installment loans	2,273,280	2,288,039	14,759	1%
Investment in operating leases	474,491	529,044	54,553	11%
Investment in securities	861,336	677,435	(183,901)	(21)%
Other operating assets	260,373	101,481	(158,892)	(61)%
Total operating assets	5,528,149	5,168,307	(359,842)	(7)%
Other assets	822,070	762,760	(59,310)	(7)%
Total assets	¥6,350,219	¥5,931,067	¥(419,152)	(7)%

Operating assets decreased 7% to ¥5,168,307 million, primarily due to four factors: i) ORIX Life Insurance sold off some of its investment securities as part of its portfolio management; ii) we reduced our other operating assets by selling shares in a real estate investment trust (REIT) to the public; iii) we securitized some lease and loan assets; and iv) the appreciation of the yen of approximately 10% resulted in a drop in the yen value of overseas assets.

The table below sets forth the volume of new assets for the years ended March 31, 2002 and March 31, 2003. Figures for new equipment acquisitions for direct financing leases and operating leases are based on the cost of the equipment.

	Year ended March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Volume of new assets				
Direct financing leases: new receivables added	¥1,083,070	¥1,000,896	¥ (82,174)	(8)%
Direct financing leases: new equipment acquisitions	980,379	895,848	(84,531)	(9)%
Installment loans: new loans added	1,340,400	1,268,170	(72,230)	(5)%
Operating leases: new equipment acquisitions	146,203	173,567	27,364	19%
Investment in securities: new securities added	348,347	231,294	(117,053)	(34)%
Other operating assets: new assets added	204,121	116,736	(87,385)	(43)%

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 for a profile of each of the categories discussed below.

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Revenues, New Business Volumes and Operating Assets

Direct financing leases

	As of and for the year ended March 31,		Change	
	2002	**2003**	**Amount**	**Percent**
	(In millions of yen, except percentage data)			
Direct financing leases				
Direct financing lease revenues	¥ 121,914	¥ 122,928	¥ 1,014	1%
Japan	84,151	91,443	7,292	9%
Overseas	37,763	31,485	(6,278)	(17)%
New receivables added	1,083,070	1,000,896	(82,174)	(8)%
Japan	877,969	758,786	(119,183)	(14)%
Overseas	205,101	242,110	37,009	18%
New equipment acquisitions	980,379	895,848	(84,531)	(9)%
Japan	798,712	675,563	(123,149)	(15)%
Overseas	181,667	220,285	38,618	21%
Investment in direct financing leases	1,658,669	1,572,308	(86,361)	(5)%
Japan	1,255,537	1,237,141	(18,396)	(1)%
Overseas	403,132	335,167	(67,965)	(17)%

Revenues from direct financing leases were ¥122,928 million for the year ended March 31, 2003. Revenues from Japanese operations increased 9%, due largely to continued strong performance of automobile leasing. As companies have increasingly outsourced the maintenance of their automobile fleets or reduced debt by selling fleets to ORIX and then leasing them back, we have been able to expand our automobile leasing operations in Japan. In addition, contributions from companies and assets acquired during the year ended March 31, 2002, including IFCO, and during fiscal 2003, including Nittetsu Lease, contributed to revenue growth in fiscal 2003. The higher revenues in Japan were partially offset by a decline of 17% in revenues from overseas operations, due primarily to declines in revenues from the United States, where our subsidiary OFS has reduced its leasing assets as part of a reorganization of its operations. For details of this reorganization see Segment Information The Americas.

The average interest rate on direct financing leases in Japan, calculated on the basis of quarterly balances, in the year ended March 31, 2003 was 6.17% compared to 5.98% in the year ended March 31, 2002, due primarily to an increased portion of revenues from automobile leases, which generally have higher rates than general equipment leases because automobile fleet maintenance requires greater specialization than general leasing and therefore allows us to generally charge higher rates. The average interest rate on overseas direct financing leases, calculated on the basis of quarterly balances, decreased to 8.67% in the year ended March 31, 2003 from 8.96% in the year ended March 31, 2002, because of lower rates in the United States.

New receivables added related to direct financing leases decreased 8% in the year ended March 31, 2003 due to lower purchases of third party assets. In particular, the acquisition of IFCO in September 2001 added approximately ¥250 billion in new business volumes in fiscal 2002, whereas the only substantial acquisition in fiscal 2003 was Nittetsu Lease which added approximately ¥110 billion of new business volumes. New receivables added from Japanese operations decreased by 14% due to the smaller amount of asset purchases as described above. New receivables added from overseas operations increased by 18% due primarily to contributions from subsidiaries in Asia and Oceania where we are strategically attempting to utilize our expertise gained in automobile leasing in Japan to expand our automobile leasing operations. The volumes for new equipment acquisitions also decreased for the same reasons as described above for new receivables added.

Investment in direct financing leases as of March 31, 2003 decreased 5%. Assets in Japan decreased 1%, due primarily to the securitization of direct financing leases, while overseas assets decreased 17% due

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primarily to the appreciation of the yen of approximately 10%, the decline in leasing assets at ORIX Financial Services, Inc. (OFS) in the United States, and the securitization of direct financing leases.

As of March 31, 2003, no single lessee represented more than 1% of our total portfolio of direct finance leases. As of March 31, 2003, approximately 79% of our direct financing leases were to lessees located in Japan, and approximately 21% of our direct financing leases were to lessees located overseas, of which 12% were to lessees located in the United States.

	As of March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Investment in direct financing leases by category				
Information-related and office equipment	¥ 262,524	¥ 239,853	¥(22,671)	(9)%
Industrial equipment	286,942	271,471	(15,471)	(5)%
Commercial services equipment	186,115	181,741	(4,374)	(2)%
Transportation equipment	603,843	516,646	(87,197)	(14)%
Other equipment	319,245	362,597	43,352	14%
Total	¥1,658,669	¥1,572,308	¥(86,361)	(5)%

Investment in direct financing leases of information-related and office equipment decreased 9% as of March 31, 2003, due primarily to securitization in Japan.

Investment in direct financing leases of industrial equipment decreased 5% as of March 31, 2003, largely due to declines in assets at OFS in the United States.

Investment in direct financing leases of transportation equipment decreased 14% as of March 31, 2003, due primarily to the securitization of automobile leases in Japan and declines in assets at OFS in the United States.

Investment in direct financing leases of other equipment, which includes a wide range of medical and telecommunications equipment, increased 14% as of March 31, 2003. This increase was due primarily to the increase of telecommunications equipment in Japan.

Balances for investment in direct financing leases in the tables above do not include securitized lease assets. However, gains from securitization are included in direct financing lease revenues. During the year ended March 31, 2003, we securitized ¥150,956 million of direct financing lease assets (¥134,416 million in Japan; ¥16,540 million overseas) that were treated as off-balance sheet assets and during the year ended March 31, 2002, we securitized ¥202,767 million of direct financing lease assets (¥188,853 million in Japan; ¥13,914 million overseas). If securitized assets are included, the total balance of investment in direct financing lease assets would be ¥1,897,391 million as of March 31, 2003 and ¥2,033,818 million as of March 31, 2002. The balance of direct financing lease assets treated as off-balance sheet assets amounted to ¥325,083 million as of March 31, 2003 and ¥375,149 million as of March 31, 2002. Gains from the securitization of these assets of ¥3,205 million were included in direct financing lease revenues for the fiscal year ended March 31, 2003 and ¥6,159 million for the fiscal year ended March 31, 2002. For more information on securitization, see Note 9 of Item 18. Financial Statements.

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Asset quality of our direct financing leases

	As of March 31,		
	2001	2002	2003
	(In millions of yen, except percentage data)		
Past due direct financing leases and allowances for direct financing leases			
90+ days past due direct financing leases	¥53,515	¥67,924	¥47,825
90+ days past due direct financing leases as a percentage of the balance of investment in direct financing leases	3.23%	4.10%	3.04%
Provisions as a percentage of average balance of investment in direct financing leases	1.31%	1.29%	1.04%
Allowance for direct financing leases	¥40,885	¥50,837	¥42,588
Allowance for direct financing leases as a percentage of the balance of 90+ days past due direct financing leases	76.40%	74.84%	89.05%
Allowance for direct financing leases as a percentage of the balance of investment in direct financing leases	2.47%	3.06%	2.71%

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

The decrease in 90+ days past due direct financing leases occurred primarily due to charge-offs and recovery efforts, particularly of assets in the United States and Asia.

We believe that the ratio of allowance for doubtful receivables as a percentage of the balance of investment in direct financing leases was adequate as of March 31, 2003, for the following reasons:

lease receivables are generally diversified and the amount of the realized loss on each contract is likely to be relatively small,

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, and

the allowance for doubtful receivables on direct financing leases as a percentage of the balance of 90+ days past due direct financing leases increased to 89.05% as of March 31, 2003.

The ratio of charge-offs as a percentage of the balance of the investment in direct financing leases was 1.20%, 1.24% and 1.55% for fiscal 2001, 2002 and 2003, respectively. We recognize that, due to our charge-off policy, historical ratios of charge-offs as a percentage of the balance of our investment in direct financing leases may be lower than if we had taken charge-offs after they were past due for a specific arbitrary period. Accordingly, in evaluating whether the ratio of allowance for doubtful receivables as a percentage of the balance of our investment in direct financing leases is adequate, we do not give as much weight to historical charge-off ratios as we do to the other factors discussed above.

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Operating leases

	As of and for the year ended March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Operating leases				
Operating lease revenues	¥120,807	¥127,608	¥ 6,801	6%
Japan	87,732	87,652	(80)	(0)%
Overseas	33,075	39,956	6,881	21%
New equipment acquisitions	¥146,203	¥173,567	¥27,364	19%
Japan	116,933	143,000	26,067	22%
Overseas	29,270	30,567	1,297	4%
Investment in operating leases	¥474,491	¥529,044	¥54,553	11%
Japan	338,719	369,489	30,770	9%
Overseas	135,772	159,555	23,783	18%

Revenues from operating leases increased by 6% primarily due to growth in overseas revenues. Revenues were flat in Japan, while they rose 21% or ¥6,881 million overseas, of which an increase of ¥4,306 million was due to including the operating results of certain real estate partnerships in the United States as gross in the statement of income for the year ended March 31, 2003, whereas they had previously been recorded net in other operating revenues. In addition, the expansion of automobile operating leases in Asia and Oceania contributed to the increase. In fiscal 2002 and 2003, gains from the disposition of operating lease assets were ¥3,467 million and ¥7,803 million, respectively, and these amounts are included in revenues from operating leases.

New equipment acquisitions of operating leases increased by 19%, to ¥173,567 million, reflecting the acquisition of KDDI Development in Japan, which added approximately ¥33,000 million to new equipment acquisitions, as well as growth in automobile operating leases in Asia and Oceania.

Investment in operating leases grew by 11%, reflecting an increase in real estate leases due to the acquisition of KDDI Development. Although the appreciation of the yen and the sale of some aircraft reduced some types of overseas investment in operating leases, certain real estate partnerships in the United States referred to above are recorded gross in the balance sheet as of March 31, 2003 and amounted to ¥47,937 million, whereas they had previously been recorded net in advances. As a result, investment in operating leases overseas increased 18%, or ¥23,783 million, compared with the previous fiscal year.

	As of March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Investment in operating leases by category				
Transportation equipment	¥187,605	¥174,893	¥(12,712)	(7)%
Measuring equipment and personal computers	71,527	70,988	(539)	(1)%
Real estate and other	215,359	283,163	67,804	31%
Total	¥474,491	¥529,044	¥ 54,553	11%

Transportation equipment declined primarily due to the sale of some aircraft and the appreciation of the yen, while real estate increased due to the recording of investments in partnerships in the United States as gross and the acquisition of KDDI Development.

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

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Installment loans and investment securities

Installment loans

	As of and for the year ended March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Installment Loans				
Interest on installment loans	¥ 99,732	¥ 115,610	¥ 15,878	16%
Japan	70,135	89,068	18,933	27%
Overseas	29,597	26,542	(3,055)	(10)%
New loans added	¥1,340,400	¥1,268,170	¥ (72,230)	(5)%
Japan	1,144,667	1,100,887	(43,780)	(4)%
Overseas	195,733	167,283	(28,450)	(15)%
Installment loans	¥2,273,280	¥2,288,039	¥ 14,759	1%
Japan	1,840,289	1,954,640	114,351	6%
Overseas	432,991	333,399	(99,592)	(23)%

Interest on installment loans increased by 16% for the year ended March 31, 2003. Interest on installment loans in Japan increased by 27% due primarily to a higher average interest rate, increased average balances of consumer card loans, housing loans and corporate loans and gains from securitization of loan receivables, while interest on overseas installment loans decreased by 10% as a result of a lower average balance of investments and lower interest rates.

The average interest rate earned on loans in Japan, calculated on the basis of quarterly balances, increased to 4.32% in fiscal 2003 from 4.00% in fiscal 2002 primarily due to an increase in the balance of high yield consumer card loans. The average interest rate earned on overseas loans, calculated on the basis of quarterly balances, decreased to 6.28% in fiscal 2003 from 7.51% in fiscal 2002 primarily due to declines in market interest rates in the United States.

New loans added decreased by 5% for the year ended March 31, 2003. New loans added in Japan decreased by 4% as we made fewer acquisitions than the previous fiscal year. In comparison, new loans added overseas decreased by 15%, due largely to a decrease in lending in the United States as fewer investments were made against the backdrop of a weak economy.

Our balance of installment loans remained relatively stable. However, our balance of installment loans for borrowers in Japan increased by 6% due primarily to growth in loans to corporate customers. Our balance of installment loans for overseas borrowers decreased by 23% as a result of the appreciation of the yen, the sale of certain loan assets, and a decline in the amount of new loans added.

As of March 31, 2003, 85% of loans were to borrowers in Japan and approximately 8% were to borrowers in the United States.

The table below sets forth the balances as of March 31, 2002 and 2003 of our installment loans to borrowers in Japan and overseas, categorized in the case of borrowers in Japan by type of consumer or corporate loan. ¥219,555 million, or 10%, of installment loans to corporate borrowers in Japan is held in connection with our life insurance operations, and income from these loans is reflected in our consolidated statements of income as life insurance premiums and related investment income.

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	As of March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Installment loans				
Consumer borrowers in Japan				
Housing loans	¥ 557,461	¥ 531,904	¥ (25,557)	(5)%
Card loans	230,358	271,636	41,278	18%
Other	44,829	32,668	(12,161)	(27)%
Subtotal	832,648	836,208	3,560	0%
Corporate borrowers in Japan				
Real estate-related companies	278,367	276,332	(2,035)	(1)%
Commercial and industrial companies	708,031	821,992	113,961	16%
Subtotal	986,398	1,098,324	111,926	11%
Total (Japan)	1,819,046	1,934,532	115,486	6%
Overseas commercial, industrial and other borrowers	432,771	333,313	(99,458)	(23)%
Loan origination costs, net	21,463	20,194	(1,269)	(6)%
Total	¥2,273,280	¥2,288,039	¥ 14,759	1%

As of March 31, 2003, we had concentration of over 10% of total loans to borrowers in the real estate-related and construction industry and the entertainment industry, which are included in loans to corporate borrowers in Japan. As of March 31, 2003, we had loans outstanding of ¥327,697 million, representing 14% of total installment loans, to real estate-related companies and construction companies. Of these loans, ¥44,883 million, or 2%, were classified as non-performing loans in accordance with FASB Statement No. 114. An allowance of ¥20,394 million was allocated to these non-performing loans. The remaining outstanding balance represents performing loans or the portion of loans secured by collateral. As of March 31, 2003, we had loans outstanding of ¥249,699 million, representing 11% of total installment loans, to companies in the entertainment industry. Of those, ¥10,793 million, or 0.5%, were classified as non-performing loans in accordance with FASB Statement No. 114. An allowance of ¥2,541 million was allocated to these non-performing 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, 2002 and 2003 remained relatively flat. Card loans increased by 18%, because of strong demand for the loans provided by ORIX Credit. However, a 5% decrease in housing loans and a 27% decrease in other consumer loans in Japan offset this increase in card loans. The decrease in housing loans was due primarily to securitization. Other consumer loans in Japan decreased largely because of fewer loans to customers in connection with our securities brokerage business as the weak stock market in Japan resulted in lower demand for loans for margin purchases.

The balance of loans to corporate borrowers in Japan increased by 11% as of March 31, 2003. The majority of the increase was due to a 16% increase in loans to corporate and industrial companies, which in turn was due to strong demand for non-recourse and other commercial loans in Japan. The demand for such loans stems from a number of factors, which include the ability of ORIX to provide a variety of financial structures to meet various customer needs, certain financial institutions reducing their lending because of declining asset quality and credit adequacy and other financial problems, and our extensive corporate network that allows us to access a large number of potential clients.

The balance of loans to overseas commercial, industrial and other borrowers decreased by 23% as of March 31, 2003. This decrease was due primarily to the appreciation of the yen, which caused about half of the decline, as well as the sale of certain loan assets and fewer loans added.

Balances of installment loans in the tables above do not include securitized assets. However, the amount of interest on loans includes gains from the securitization of installment loans. In the year ended

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March 31, 2003, we securitized ¥78,674 million of installment loans, which were treated as off-balance sheet assets, and ¥46,062 million in the year ended March 31, 2002. If securitized loans are included, the total balance of installment loans would be ¥2,425,906 million as of March 31, 2003 and ¥2,349,242 million as of March 31, 2002. The balance of installment loans treated as off-balance sheet assets amounted to ¥137,867 million as of March 31, 2003 and ¥75,962 million as of March 31, 2002. Gains from the securitization of loans of ¥6,444 million were included in interest on installment loans in fiscal 2003 and ¥3,076 million in fiscal 2002. For more information on securitization, see Note 9 in Item 18. Financial Statements.

Asset quality of our installment loans

We classify past due installment loans into two categories: installment loans considered impaired in accordance with FASB Statement No. 114 and 90+ days past due loans not covered by FASB Statement No. 114.

	As of and for the year ended March 31,		
	2001	**2002**	**2003**
		(In millions of yen)	
Loans considered impaired in accordance with FASB Statement No. 114			
Impaired loans	¥120,090	¥113,000	¥97,278
Impaired loans requiring a valuation allowance	73,636	71,802	63,975
Valuation allowance	47,037	45,862	36,073

The valuation allowance for each period is the required valuation allowance less the value of the collateral from impaired loans, calculated in accordance with FASB Statement No. 114.

The allowance for impaired loans accounted for in accordance with FASB Statement No. 114 relates mainly to non-performing assets resulting from the collapse of the Japanese real estate market in and following 1992. Following the adoption of FASB Statement No. 114 in the year ended March 31, 1996, we increased the allowance for non-performing loans, principally as a result of a decline in the value of real estate collateral supporting these loans, despite the absence of a significant change in total outstanding value of these loans. In the year ended March 31, 2003, a charge-off of impaired loans amounting to ¥23,676 million resulted in a decrease in the outstanding balances of impaired loans as of March 31, 2003 compared to the year ended March 31, 2002, in which a charge-off of impaired loans amounted to ¥8,475 million.

The table below sets forth the outstanding balances of impaired loans by region and type of borrowers. Consumer loans in Japan in the Others category primarily consist of loans secured by stock or golf club memberships.

	As of March 31,		
	2001	**2002**	**2003**
		(In millions of yen)	
Impaired loans			
Consumer borrowers in Japan			
Housing loans	¥	¥	¥
Card loans			
Others	625	2,193	965
Subtotal	625	2,193	965

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	As of March 31,		
	2001	2002	2003
	(In millions of yen)		
Corporate borrowers in Japan			
Real estate-related companies	48,527	40,184	27,508
Commercial and industrial companies	59,288	58,338	59,578
Subtotal	107,815	98,522	87,086
Overseas commercial, industrial and other borrowers	11,650	12,285	9,227
Total	¥120,090	¥113,000	¥97,278

The table below sets forth information as to past due loans and allowance for installment loans, excluding amounts covered by FASB Statement No. 114. Average balances are calculated on the basis of fiscal quarter-end balances.

	As of March 31,		
	2001	2002	2003
	(In millions of yen, except percentage data)		
Past due loans and allowance for installment loans			
90+ days past due loans not covered by FASB Statement No. 114	¥84,827	¥74,199	¥60,587
90+ days past due loans not covered by FASB Statement No. 114 as a percentage of the balance of installment loans not covered by FASB Statement No. 114	4.9%	3.4%	2.8%
Provisions as a percentage of average balance of installment loans	1.0%	1.1%	1.1%
Allowance for probable loan losses not covered by FASB Statement No. 114	¥53,155	¥56,188	¥54,485
Allowance for loans not covered by FASB Statement No. 114 as a percentage of the balance of 90+ days past due loans not covered by FASB Statement No. 114	62.7%	75.7%	89.9%
Allowance for loans not covered by FASB Statement No. 114 as a percentage of the balance of installment loans not covered by FASB Statement No. 114	3.08%	2.60%	2.49%

The balance of 90+ past due loans not covered by FASB Statement No. 114 declined by 18%, principally due to charge-offs of ¥27,443 million.

	As of March 31,		
	2001	2002	2003
	(In millions of yen)		

90+ days past due loans not covered by FASB Statement No. 114			
Consumer borrowers in Japan			
Housing loans	¥60,316	¥53,577	¥49,098
Card loans and other	14,832	9,585	6,963
Corporate borrowers in Japan			
Real estate-related companies	808	195	390
Commercial and industrial companies	2,050	2,192	1,414
Overseas commercial, industrial and other borrowers	6,821	8,650	2,722
Total	¥84,827	¥74,199	¥60,587

The majority of these past-due loans were housing loans to consumers in Japan secured by collateral (mostly first mortgages) where we received partial payments. A significant majority of these housing loans are to consumers who purchased condominiums for investment purposes. We make provisions against losses for these homogenous loans by way of general reserves for installment loans included in 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 may affect the default rate. These conditions include corporate and personal bankruptcies and increased unemployment rates.

We determine the allowance for card loans and other 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, 2003 was adequate because:

- we expect to recover a portion of the outstanding balance for 90+ days past due loans not covered by FASB Statement No. 114 primarily because most 90+ days past due loans are housing loans, which are generally made to individuals and generally secured by first mortgages, and

- the allowance for probable loan losses on loans not covered by FASB Statement No. 114 as a percentage of the balance of 90+ days past due loans not covered by FASB Statement No. 114 was 90% as of March 31, 2003.

The ratio of charge-offs as a percentage of the balance of installment loans was 0.86%, 1.00% and 1.24% for fiscal 2001, 2002 and 2003, respectively. We recognize that, due to our charge-off policies, historical ratios of charge-offs as a percentage of the balance of our investment in installment loans may be lower than if we had taken charge-offs after they were past due for a specific arbitrary period. Accordingly, in evaluating whether the ratio of allowance for probable loan losses as a percentage of the balance of installment loans is adequate, we do not give as much weight to historical charge-off ratios as we do to the other factors discussed above.

Investment securities

We maintain a sizable investment in various securities. The largest segment of this portfolio is the investment of the reserves in our life insurance operations. This is approximately 50% of our total investment in securities as of March 31, 2003. These reserves are generally invested in corporate debt. Corporate debt securities consist primarily of fixed interest rate instruments. Our portfolio included investments by our U.S. operations in high yield debt securities with a balance of ¥31,722 million and in commercial mortgage-backed securities with a balance of ¥111,863 million as of March 31, 2003.

	As of March 31, 2002		
	Life insurance	Other operations	Total
	(In millions of yen)		
Investment securities			
Fixed income securities	¥433,463	¥242,956	¥676,419
Marketable equity securities	73	53,448	53,521
Other securities	23,596	107,800	131,396
Total	¥457,132	¥404,204	¥861,336

	As of March 31, 2003		
	Life insurance	Other operations	Total
	(In millions of yen)		
Investment securities			
Fixed income securities	¥314,465	¥194,578	¥509,043
Marketable equity securities	550	35,269	35,819
Other securities	26,885	105,688	132,573

Total	¥341,900	¥335,535	¥677,435

The balance of our investments in securities other than in connection with our life insurance operations decreased to ¥335,535 million as of March 31, 2003 from ¥404,204 million as of March 31, 2002, primarily reflecting declines in the Japanese stock market and the appreciation of the yen. 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 fixed income securities and on interest-earning securities classified in other 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 gain or loss 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 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	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Investment Securities				
Interest on investment securities	¥ 22,230	¥ 15,980	¥ (6,250)	(28)%
Japan	3,533	866	(2,667)	(75)%
Overseas	18,697	15,114	(3,583)	(19)%
New securities added	¥348,347	¥231,294	¥(117,053)	(34)%
Japan	304,248	214,477	(89,771)	(30)%
Overseas	44,099	16,817	(27,282)	(62)%
Investment in securities	¥861,336	¥677,435	¥(183,901)	(21)%
Japan	651,702	497,829	(153,873)	(24)%
Overseas	209,634	179,606	(30,028)	(14)%

Interest on investment securities other than those held in connection with our life insurance operations decreased 28% for the year ended March 31, 2003, due to a decrease in the balance of investment in securities and lower interest rates both in Japan and overseas. The average interest rate earned on investment securities in Japan, calculated on the basis of quarterly balances, decreased to 1.61% in the year ended March 31, 2003 from 2.31% in the year ended March 31, 2002, primarily due to declines in market interest rates in Japan. The average interest rate earned on overseas investment securities, calculated on the basis of quarterly balances, decreased to 8.94% in the year ended March 31, 2003 from 9.41% in the year ended March 31, 2002, primarily due to declines in the market interest rates in the United States.

New securities added decreased by 34% for the year ended March 31, 2003. New securities added in Japan decreased by 30% due mainly to fewer new securities added by ORIX Life Insurance and new securities added overseas decreased 62% due primarily to a decline in new investments in commercial mortgage-backed securities in the United States.

The balance of our investment in securities decreased by 21% compared to March 31, 2002. The balance of our investment in securities in Japan decreased by 24% due primarily to a reduction of securities held by ORIX Life Insurance, and the balance of our investment in securities overseas decreased by 14% due primarily to the appreciation of the yen and the write-downs of securities.

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	As of March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Investment in securities by security type				
Trading securities	¥ 879	¥ 12,154	¥ 11,275	1283%
Available-for-sale securities	718,919	537,888	(181,031)	(25)%
Held-to-maturity securities	16,008	10,638	(5,370)	(34)%
Other securities	125,530	116,755	(8,775)	(7)%
Total	¥861,336	¥677,435	¥(183,901)	(21)%

In past years, we mainly invested in U.S. corporate bonds purchased in the primary markets and income was mostly realized from interest. However, we began to purchase bonds we believe are undervalued in the secondary markets to realize gains from sales. This shift in strategy increased investments in trading securities by 1,283%. Investments in available-for-sale securities and held-to-maturity securities decreased by 25% and 34%, respectively, mainly due to the reduction in securities held by ORIX Life Insurance.

The above table does not include securitized assets. If securitized assets are included, the total balance of investment in securities would be ¥722,913 million as of March 31, 2003 and ¥913,011 million as of March 31, 2002. Securities treated as off-balance sheet assets were ¥45,478 million as of March 31, 2003 and ¥51,675 million as of March 31, 2002. No securities were securitized in fiscal 2003 or 2002.

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 gain or loss 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.

	Year ended March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Brokerage commissions and net gains on investment securities				
Brokerage commissions	¥ 2,940	¥ 2,400	¥ (540)	(18)%
Net gains on investment securities	15,427	8,457	(6,970)	(45)%
Total	¥18,367	¥10,857	¥(7,510)	(41)%

Brokerage commissions and net gains on investment securities decreased by 41% in the year ended March 31, 2003. Reflecting lower trading volumes in Japan, our brokerage commissions from ORIX Securities decreased by 18% and net gains on investment securities decreased by 45% for the year ended March 31, 2003, due primarily to fewer net gains on investment securities in Japan as a result of declines in the Japanese stock market.

As of March 31, 2003, gross unrealized gains on available-for-sale securities, including those held in connection with our life insurance operations, were ¥20,845 million, compared to ¥41,992 million as of March 31, 2002. As of March 31, 2003, gross unrealized losses on available-for-sale securities, including those held in connection with our life insurance operations, were ¥11,694 million, compared to ¥16,369 million as of March 31, 2002. Such unrealized gains decreased primarily due to declines in the Japanese stock market and the sale of securities. Gross unrealized losses declined primarily due to write-downs of securities and the sale of securities.

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Life insurance premiums and related investment income

All income and losses (other than write-downs of securities and provisions for doubtful receivables and probable loan losses) we recognize on securities and installment loans held in connection with life insurance operations are reflected in our consolidated statements of income as life insurance premiums and related investment income.

	Year ended March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Life insurance premiums and related investment income				
Life insurance premiums	¥135,479	¥122,963	¥(12,516)	(9)%
Life insurance-related investment income	16,854	15,548	(1,306)	(8)%
Total	¥152,333	¥138,511	¥(13,822)	(9)%

Life insurance premiums and related investment income decreased by 9% compared to the year ended March 31, 2002. Life insurance premiums of ORIX Life Insurance decreased 9% due to a continued shift from savings-type to insurance-only life insurance products that are expected to produce reduced revenues but higher margins. Life insurance-related investment income decreased 8% due to the lower gains from the sale of securities.

	Year ended March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Investments by ORIX Life Insurance				
Fixed-income securities	¥433,463	¥314,465	¥(118,998)	(27)%
Marketable equity securities	73	550	477	653%
Other securities	23,596	26,885	3,289	14%
Total investment in securities	457,132	341,900	(115,232)	(25)%
Installment loans and other investments	86,606	237,905	151,299	175%
Total	¥543,738	¥579,805	¥ 36,067	7%

Fixed income securities decreased 27% compared with March 31, 2002, while other investments, which are made up primarily of loans, increased 175%, as we sold securities and replaced them with corporate loans as part of ORIX Life Insurance s portfolio management.

	Year ended March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Breakdown of Life Insurance-Related Investment Income				
Net gains on investment securities	¥ 7,318	¥ 3,448	¥(3,870)	(53)%
Interest on loans and investment securities, and others	9,536	12,100	2,564	27%
Total	¥16,854	¥15,548	¥(1,306)	(8)%

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

Residential condominium sales

	Year ended March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Residential condominium sales				
Residential condominium sales	¥58,078	¥71,165	¥13,087	23%

Revenues from residential condominium sales increased by 23% compared to the previous fiscal year, as lower land prices in metropolitan areas, especially around Tokyo, have resulted in relatively strong demand from buyers who wish to live close to urban centers. We have been able to provide condominiums that are attractive to these customers. All revenues from residential condominium sales come from Japan.

Interest income on deposits

Interest income on deposits not included in other categories of revenues includes principally interest on bank deposits. Interest income on deposits decreased by 62%, or ¥848 million, for the year ended March 31, 2003, to ¥526 million, due primarily to the low interest rate environment in Japan and lower balance of deposits.

Other operations

	As of and for the year ended March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Other operations				
Other operating revenues	¥ 63,627	¥ 80,460	¥ 16,833	26%
Japan	51,652	70,545	18,893	37%
Overseas	11,975	9,915	(2,060)	(17)%
New assets added	¥204,121	¥116,736	¥ (87,385)	(43)%
Japan	180,903	99,330	(81,573)	(45)%
Overseas	23,218	17,406	(5,812)	(25)%
Other operating assets	¥260,373	¥101,481	¥(158,892)	(61)%
Japan	248,216	91,851	(156,365)	(63)%
Overseas	12,157	9,630	(2,527)	(21)%

Other operating revenues for the year ended March 31, 2003 increased by 26%, due primarily to gains on the sale of a majority of the shares of an affiliated real estate investment trust (JREIT) to the public totaling ¥3,174 million, revenues from building maintenance, which increased from ¥6,673 million in fiscal 2002 to ¥11,731 million in fiscal 2003, and revenues from other real estate-related operations in Japan. In addition, we made principal investments in certain companies with the intention to restructure and resell them for a gain in the future. The companies acquired in fiscal 2003 include a resort hotel and a sporting goods distributor. These companies are consolidated entities, so the revenues from the hotel and the sale of sporting goods are included in our consolidated financial statements. Other operating revenues overseas decreased primarily due to the recording of revenues from certain investments in real estate partnerships in the United States gross in operating lease revenues for the year ended March 31, 2003, whereas they had previously been recorded net in other operating revenues.

New assets added for the year ended March 31, 2003 declined 43%. In Japan, there was a large increase in new assets added in the last fiscal year due to the purchase of properties to be contributed to the JREIT. Shares of the JREIT were sold to the public in fiscal 2003. Overseas, the decrease of new assets added was due to the reduction of new real estate developments in the United States.

In June 2002, ORIX JREIT Inc. conducted an initial public offering of units in the JREIT, which had been previously issued by the JREIT to the Company. Prior to the initial public offering, the Company owned 100% of the JREIT. Prior to and during the year ended March 31, 2002, the Company acquired approximately ¥100 billion in real property that was subsequently sold to the JREIT. Subsequent to completion of the offering of 80% of the outstanding units held by the Company, these assets no longer remained on our consolidated balance sheets. We retained approximately 20% of the investment units of the JREIT, which is included in investment in affiliates on our consolidated balance sheets.

As a result of the listing of the JREIT, other operating assets in Japan as of March 31, 2003 declined 63% compared with the previous year. The write-downs of long-lived assets also decreased the balance of operating assets related to golf courses and hotels in Japan. Overseas, the appreciation of the yen resulted in a decline in other operating assets compared to the previous year.

Expenses

Interest expense

Interest expense amounted to ¥71,990 million in the year ended March 31, 2003, a decrease of ¥18,358 million, or 20% from the year ended March 31, 2002, primarily as the result of declines in market interest rates, particularly overseas. Based on segment information, interest expense in overseas segments was ¥36,057 million in fiscal 2003 and ¥53,632 million in fiscal 2002, a decline of ¥17,575 million, or 33%, primarily as a result of lower interest rates overseas, and to a lesser extent, lower debt levels.

The average interest rate on our short-term and long-term debt in Japan, calculated on the basis of quarterly balances, was 1.11% in the year ended March 31, 2003, compared to 1.30% in the year ended March 31, 2002. The average interest rate on our short-term and long-term overseas debt, calculated on the basis of quarterly balances, decreased to 4.19% in the year ended March 31, 2003 from 5.34% in the year ended March 31, 2002, due to lower interest rates overseas.

The ratio of our funding directly from capital markets to our total debt and deposits was 48% and 53% as of March 31, 2003 and March 31, 2002, respectively. The decline was due primarily to a reduction of CP. See Liquidity and Capital Resources. Notes issued under our medium-term notes program decreased by ¥79,069 million to ¥245,300 million as of March 31, 2003 from ¥324,369 million as of March 31, 2002, while bonds increased by ¥31,350 million to ¥894,038 million as of March 31, 2003 from ¥862,688 million as of March 31, 2002. Issued and outstanding CP decreased to ¥527,263 million as of March 31, 2003 from ¥1,012,932 million as of March 31, 2002.

Depreciation operating leases

Depreciation of operating leases increased ¥3,518 million, to ¥80,565 million in the year ended March 31, 2003, an increase of 5% from the level in the year ended March 31, 2002. The increase was due to an increase in the average balance of operating leases for the year ended March 31, 2003.

Life insurance costs

In line with a decrease in life insurance premiums and related investment income, life insurance costs decreased in the year ended March 31, 2003 by ¥14,102 million, or 10%, to ¥125,684 million from the year ended March 31, 2002. The largest cost associated with life insurance operations is provision for policy liability reserves, which generally vary with premium income.

Costs of residential condominium sales

Costs of residential condominium sales for the year ended March 31, 2003 rose ¥11,252 million or 23%, to ¥60,769 million compared to the previous fiscal year, corresponding to increased revenues from residential condominium sales during the same period. In fiscal 2003, both revenues and costs from the sale of residential condominiums rose 23%, reflecting gross margins (the difference between sales and costs divided by sales) that were approximately equal compared to fiscal 2002.

Other operating expenses

Other operating expenses increased 40%, to ¥41,359 million, in the year ended March 31, 2003, reflecting increased other operating revenues.

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Selling, general and administrative expenses

	Year ended March 31,		Change	
	2002	**2003**	**Amount**	**Percent**
	(In millions of yen, except percentage data)			
Selling, General and Administrative Expenses				
Personnel expenses	¥ 57,115	¥ 66,155	¥ 9,040	16%
Selling expenses	21,197	24,131	2,934	14%
Administrative expenses	45,310	50,913	5,603	12%
Depreciation of office facilities	2,694	3,072	378	14%
Total	¥126,316	¥144,271	¥17,955	14%

Employee salaries and other personnel expenses account for approximately half of selling, general and administrative expenses, and the remaining half consists of such general overhead expenses such as rent for office spaces, communication expenses and travel expenses. Selling, general and administrative expenses in the year ended March 31, 2003 were ¥144,271 million, an increase of 14% from the year ended March 31, 2002. This increase in expenses primarily reflected growth in existing businesses and an increase in the number of consolidated companies as well as the administrative and advertising costs associated with an increase in retail businesses.

Provision for doubtful receivables and probable loan losses

We make provision for doubtful receivables and probable loan losses for direct financing leases and installment loans. Provision for doubtful receivables and probable loan losses in the year ended March 31, 2003 was ¥54,706 million, an increase of 7% from the year ended March 31, 2002, and included provisions of approximately ¥5,300 million for investments related to the airline industry. Provisions for direct financing leases declined 27% due primarily to reduced provisions for our leasing operations in the Americas, while provisions for loans not covered by FASB Statement No. 114 increased 11% due to an increased average balance of consumer card loans and housing loans. Provisions for loans in accordance with FASB Statement No. 114 increased 107% due to provisions for airline-related loans and an increase in the balance of corporate loans in Japan.

	Year ended March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Provision for doubtful receivables on direct financing leases and probable loan losses				
Beginning balance	¥141,077	¥152,887	¥ 11,810	8%
Direct financing leases	40,885	50,837	9,952	24%
Loans not covered by FASB Statement No. 114	53,155	56,188	3,033	6%
FASB Statement No. 114 impaired loans	47,037	45,862	(1,175)	(2)%
Provisions charged to income	¥ 51,367	¥ 54,706	¥ 3,339	7%
Direct financing leases	23,237	16,978	(6,259)	(27)%
Loans not covered by FASB Statement No. 114	21,240	23,497	2,257	11%
FASB Statement No. 114 impaired loans	6,890	14,231	7,341	107%
Charge-offs (net)	¥ (49,340)	¥ (76,564)	¥(27,224)	55%
Direct financing leases	(21,364)	(25,445)	(4,081)	19%
Loans not covered by FASB Statement No. 114	(19,501)	(27,443)	(7,942)	41%
FASB Statement No. 114 impaired loans	(8,475)	(23,676)	(15,201)	179%
Other*	¥ 9,783	¥ 2,117	¥ (7,666)	(78)%
Direct financing leases	8,079	218	(7,861)	(97)%
Loans not covered by FASB Statement No. 114	1,294	2,243	949	73%
FASB Statement No. 114 impaired loans	410	(344)	(754)	(184)%
Ending balance	¥152,887	¥133,146	¥(19,741)	(13)%
Direct financing leases	50,837	42,588	(8,249)	(16)%
Loans not covered by FASB Statement No. 114	56,188	54,485	(1,703)	(3)%
FASB Statement No. 114 impaired loans	45,862	36,073	(9,789)	(21)%

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

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 ¥50,682 million in real estate assets in Japan in the year ended March 31, 2003 compared to ¥2,716 million in the previous fiscal year. The assets we wrote down include golf courses, residential rental condominiums, corporate dormitories, hotel properties and other properties. The increase in write-downs was primarily due to continued and significant declines in the values of these assets and in the expected cash flows generated from these assets against the background of continued asset deflation in Japan and an uncertain global economic environment.

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 the period in response to relatively smaller changes in estimated future cash flows. An asset is generally not considered to be impaired so long as the undiscounted estimated future cash flows exceed the carrying value. However, once the estimated cash flows are believed to be less than the current carrying value, the asset is written down to estimated fair value (which would generally be similar to discounting the estimated future cash flows). Write-downs to estimated fair value prior to the point that the asset is determined to be impaired are not permitted.

All the write-downs in fiscal 2002 and 2003 were recorded in the real estate segment. Our total investment in long-lived assets as of March 31, 2003 was ¥635,233 million. Of these ¥447,619 were located in Japan and ¥187,614 were located overseas. Of the long-lived assets in Japan, ¥207,821 million were in the real estate segment. While FASB Statement No. 144 applies to all of our long-lived assets, we believe that there is a higher probability of further write-downs in the real estate segment than in other segments, due to the asset deflation that has continued to adversely impact real estate prices and rental rates for over ten years in Japan. For discussion of these write-downs, including the details of the types of assets and the amounts that were written down, see Note 23 of Item 18. Financial Statements. For a breakdown of long-lived assets by segment, see Note 29 of Item 18. Financial Statements.

Write-downs of securities

In the year ended March 31, 2003, write-downs of securities declined by 27%, or ¥5,417 million, to ¥14,325 million. The write-downs for fiscal 2003 included approximately ¥5,000 million for write-downs of high yield bonds in the United States, which included approximately ¥900 million in write-downs of securities related to the airline industry.

Foreign currency transaction loss (gain), net

We recognized a foreign currency transaction loss in the amount of ¥1,211 million in the year ended March 31, 2003, compared to a gain of ¥1,360 million in the year ended March 31, 2002, primarily due to the appreciation of the euro against the U.S. dollar in fiscal 2003 and the appreciation of the Indonesia rupiah against the U.S. dollar in fiscal 2002. For information on the impact of foreign currency fluctuations, see Item 11. Qualitative and Quantitative Disclosures about Market Risk.

Equity in Net Income (Loss) of Affiliates

Equity in net income (loss) of affiliates in the year ended March 31, 2003 was a gain of ¥6,203 million, compared to a loss of ¥449 million in the year ended March 31, 2002. The gain in the year ended March 31, 2003 primarily reflects contributions from Stockton Holdings in the Americas segment, and The Fuji Fire and Marine Insurance Company, Ltd. (Fuji Fire and Marine) in the other segment of operations in Japan. For discussion of investment in affiliates, see Note 11 of Item 18. Financial Statements.

Gain on Sales of Affiliates

Gain on sales of affiliates in the year ended March 31, 2003 was a net gain of ¥2,002 million, which consists mainly of gain on sales of stock purchase options related to Korea Life Insurance Co., Ltd, compared to a gain of ¥119 million in the year ended March 31, 2002. For discussion of investment in affiliates, see Note 11 of Item 18. Financial Statements.

Provision for Income Taxes

Provision for income taxes in the year ended March 31, 2003 was ¥21,196 million, compared to the provision of ¥32,903 million in the year ended March 31, 2002. The decrease of ¥11,707 million was primarily due to lower income before extraordinary gain, cumulative effect of a change in accounting principle and income taxes. For discussion of income taxes, see Note 15 in Item 18, Financial Statements.

Extraordinary Gain

We acquired approximately a 22% interest in Fuji Fire and Marine on March 30, 2002. After the US GAAP financial statements for Fuji Fire and Marine were completed in January 2003, we recorded an extraordinary gain of ¥3,214 million, net of applicable taxes, in accordance with FASB Statement No. 141 (Business Combinations) for our proportional share of the fair value of the net assets acquired over the acquisition cost.

Cumulative Effect of a Change in Accounting Principle

On April 1, 2002, as a result of adopting FASB Statement No. 141, we recorded a transition gain, as an effect of a change in accounting principle, due to the write-off of unamortized deferred credits of

¥1,937 million 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.

Segment Information

The following discussion presents segment financial information on the basis that is regularly used by management for evaluating performance of business segments and deciding how to allocate resources to 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 and see Note 29 in Item 18. Financial Statements, for additional segment information.

Segments in Japan accounted for 92% and 80% of total segment profit in fiscal 2002 and 2003, respectively. As of March 31, 2003, ¥4,241 billion, or 79%, of total segment assets were in Japan.

Segments overseas accounted for 8% and 20% of total segment profits in fiscal 2002 and 2003, respectively. As of March 31, 2003, ¥618 billion or 12%, of total segment assets were in the Americas, ¥438 billion or 8%, in Asia and Oceania, and ¥75 billion or 1%, in Europe.

The following discussion of segments also includes discussion of recent trend information that management believes is important for understanding our operations. We believe this information to be valid at the time of filing of this annual report with the SEC. However, we also believe that our business is inherently subject to rapid and dramatic changes. It is in the opinion of management, therefore, that any discussion of trends should be reviewed with caution, because those trends can change in a relatively short period of time.

	Year ended March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Segment revenues				
Business segments in Japan				
Corporate finance	¥118,794	¥125,560	¥ 6,766	6%
Equipment operating leases	67,319	67,655	336	0%
Real estate-related finance	31,582	51,589	20,007	63%
Real estate	85,516	104,454	18,938	22%
Life insurance	154,296	138,511	(15,785)	(10)%
Other	49,139	61,238	12,099	25%
Subtotal	506,646	549,007	42,361	8%
Overseas business segments				
The Americas	75,195	57,909	(17,286)	(23)%
Asia and Oceania	56,677	55,425	(1,252)	(2)%
Europe	14,716	13,311	(1,405)	(10)%
Subtotal	146,588	126,645	(19,943)	(14)%
Total	653,234	675,652	22,418	3%
Reconciliation of segment totals to consolidated amounts	5,228	7,993	2,765	53%
Total consolidated revenues	¥658,462	¥683,645	¥ 25,183	4%

	Year ended March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Segment profit (income before extraordinary gain, cumulative effect of a change in accounting principle and income taxes)				
Business segments in Japan				
Corporate finance	¥ 48,066	¥ 44,158	¥ (3,908)	(8)%
Equipment operating leases	9,906	4,402	(5,504)	(56)%
Real estate-related finance	5,654	19,572	13,918	246%
Real estate	5,842	(39,441)	(45,283)	
Life insurance	5,764	4,791	(973)	(17)%
Other	4,941	8,452	3,511	71%
Subtotal	80,173	41,934	(38,239)	(48)%
Overseas business segments				
The Americas	810	1,332	522	64%
Asia and Oceania	5,433	9,765	4,332	80%
Europe	600	(736)	(1,336)	
Subtotal	6,843	10,361	3,518	51%
Total segment profit (loss)	87,016	52,295	(34,721)	(40)%
Reconciliation of segment totals to consolidated amounts	(13,977)	(6,007)	7,970	
Total consolidated income before extraordinary gain, cumulative effect of a change in accounting principle and income taxes	¥ 73,039	¥ 46,288	¥(26,751)	(37)%

	As of March 31,		Change	
	2002	2003	Amount	Percent
	(In millions of yen, except percentage data)			
Segment assets				
Business segments in Japan				
Corporate finance	¥1,960,380	¥1,893,422	¥ (66,958)	(3)%
Equipment operating leases	147,444	144,397	(3,047)	(2)%
Real estate-related finance	1,012,896	931,513	(81,383)	(8)%
Real estate	326,473	303,838	(22,635)	(7)%
Life insurance	543,738	579,805	36,067	7%
Other	352,433	387,978	35,545	10%
Subtotal	¥4,343,364	¥4,240,953	¥(102,411)	(2)%
Overseas business segments				
The Americas	794,330	618,148	(176,182)	(22)%
Asia and Oceania	435,093	437,874	2,781	1%
Europe	113,844	75,207	(38,637)	(34)%

Subtotal	1,343,267	1,131,229	(212,038)	(16)%
Total	5,686,631	5,372,182	(314,449)	(6)%
Reconciliation of segment totals to consolidated amounts	(158,482)	(203,875)	(45,393)	
Total consolidated operating assets	¥5,528,149	¥5,168,307	¥(359,842)	(7)%

Business Segments in Japan

Corporate finance

Segment profits for corporate finance in the year ended March 31, 2003 decreased 8%, due to a decrease in gains from securitizations as compared to the previous fiscal year. Despite our acquisition of Nittetsu Lease, the balance of segment assets for corporate finance as of March 31, 2003 decreased 3%, primarily as a result of the securitization of lease assets during the year ended March 31, 2003.

Profits in the corporate finance segment have been supported in recent years in part by acquisitions of primarily direct financing leases. Due to the low interest rates in Japan and severe competition in the leasing market in Japan, if acquisitions are excluded, new business volumes in leasing have been on a downward trend in recent years. While we made one major acquisition in fiscal 2003, which was Nittetsu Lease, we cannot be certain that we will be able to make such acquisitions in the future.

In contrast to this decline in direct financing leases, we have seen growth in automobile maintenance leases and corporate loans in recent years. Because our automobile maintenance leases offer customers a cost effective way of outsourcing their vehicle maintenance needs, we have seen an increase in such outsourcing needs in recent years. In addition, we have increased our lending to small and medium-sized companies. Some of this lending involves financial structures to help companies secure off-balance financing or non-recourse financing. These loans are also offered in our real estate-related finance segment. While the competition for loans from banks and other financial institutions remains strong, we are seeing an improved risk pricing mechanism working in the market, which has made it easier for us to increase interest rates on certain loans.

Equipment operating leases

In the year ended March 31, 2003, segment profits for equipment operating leases decreased 56%. Revenues from our car rental operations increased, but the slowdown in IT-related businesses and the resulting lower utilization rates in rentals of precision measuring and other equipment resulted in flat revenues overall. Because the rentals of precision measuring and other equipment are the major component of profits in this segment, the lower utilization rates of such equipment resulted in lower profits. In addition, provisions for doubtful receivables and probable loan losses rose to ¥2,431 million, including a provision of ¥2,360 million for investments in aircraft leasing, compared to provisions in fiscal 2002 of ¥24 million.

We have seen a decline in utilization rates for the rentals of precision measuring equipment since fiscal 2001 as a result of the slowdown of IT-related demand, particularly in Japan. In response, we have worked to adjust our level of equipment by selling unneeded equipment and limiting new purchases. Because we believe we have a substantial share of the market in Japan and we offer a wide-range of equipment and services, an overall improvement in the IT sector may result in greater demand for our equipment rentals. In the second half of fiscal 2003, we did experience somewhat of an improvement in utilization rates. However, the overall market for such equipment rentals continues to remain sluggish and we do not expect an improvement in utilization rates until there is a general recovery in the IT sector.

Real estate-related finance

Segment profit for real estate-related finance for the year ended March 31, 2003 increased 246%. The increase was due largely to gains from selling shares of our REIT to the public in fiscal 2003, as well as a strong performance by our consumer housing loans which included the contribution of housing loans acquired in fiscal 2002, corporate non-recourse loans and loan servicing operations and gains from the sale of real estate-related assets and from the securitization of loan receivables. Gains from selling shares of our REIT to the public were approximately ¥3 billion which made up approximately 15% of segment profits from real estate-related finance. In addition, the securitization of housing loans resulted in gains of ¥1,732 million. Real estate-related finance assets as of March 31, 2003 decreased 8%. Despite an increase in assets due to the acquisition of KDDI Development, the balance of segment assets decreased due to a reduction in assets of approximately ¥80 billion as a result of selling shares of our REIT to the public.

The market for real estate-related finance in Japan has undergone substantial changes since the latter part of the 1990s as a result of structural changes in the economy and deregulation, which has allowed a number of new forms of real estate-related financial transactions. In particular, loan servicing of both performing and non-performing assets, non-recourse loans, and REITs were made possible because of deregulation. We have been able to combine our expertise in both the financing and the developing, managing and operating of real estate to be an active player in these new areas.

Real estate

For the year ended March 31, 2003, the real estate segment recorded a loss of ¥39,441 million compared to a profit of ¥5,842 million for the year ended March 31, 2002, primarily due to ¥50,682 million in write-downs of long-lived real estate assets. The balance of real estate assets as of March 31, 2003 decreased 7%, also due primarily to the write-downs of these long-lived assets.

In recent years, some parts of the business, for instance the development of residential condominiums and more recently building maintenance, have made positive contributions to earnings in the real estate segment. However, profitability has been adversely affected by write-downs of long-lived assets, primarily as a result of the asset deflation in Japan that has continued for over ten years. We expect this deflation to continue for the fiscal year ended March 31, 2004 and believe there may be a possibility of additional write-downs of long-lived assets if there is further deterioration in the expected cash flows from the properties that we own.

As part of the Japanese government s efforts to stimulate the economy, a number of tax incentives to encourage spending on housing combined with lower land prices in metropolitan areas have increased demand from individuals looking to purchase housing close to urban centers and we have benefited from this increased demand. In fiscal 2003, we sold approximately 2,300 condominiums. Against the backdrop of a stagnant Japanese economy, we have been cautious about expanding this business, however we do expect to sell more units in fiscal 2004 than in fiscal 2003. Despite the increase in the number of units sold, margins, which here refer to the difference between revenues from condominium sales and costs of residential condominium sales, are expected to remain flat because some of the units sold in fiscal 2003 were of relatively high margins.

Life insurance

Segment profits in the life insurance business in the year ended March 31, 2003 decreased 17%. Despite our shift in strategy from savings-type to insurance-only life insurance products in order to increase profitability, segment profits decreased due to a decrease in life insurance-related investment income as a result of fewer gains on sales of securities. The outstanding balance of segment assets as of March 31, 2003 increased by 7%. In fiscal 2002, our life insurance subsidiary sold some securities with the purpose of purchasing loans. Because of the timing difference between the sale of securities and the purchase of loans, at the end of fiscal 2002 the subsidiary held a substantial balance of cash which was not included as an operating asset of this segment. When that cash was used to purchase loans in the first part of fiscal 2003, the operating assets of the subsidiary increased, but the total assets remained almost equivalent to fiscal 2002.

In the latter half of the 1990s, we sold a considerable amount of endowment life insurance products, which are in effect a savings-type product and result in substantial revenue and asset growth because the buyer of these products pays a lump sum at the beginning of the contract. A large portion of these payments are added to life insurance reserves, which are invested in securities, loans and other investments as part of the life insurance operations portfolio management. As a result, revenues and assets in the life insurance segment increased substantially in fiscal 1998, 1999 and 2000, with assets in this segment more than trebling from fiscal 1997 to fiscal 2001.

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Most of these assets were invested in investment grade yen-denominated corporate bonds. As interest rates in Japan declined during this period, the price of many bonds rose and we sold some of these bonds to realize a gain. By fiscal 2003, there were substantial lower unrealized gains on investment securities. Because of the low return on assets as a result of the low interest rate environment in Japan, we have shifted our sales strategy in the life insurance operations from the savings-type products to insurance only-products, which produce significantly lower revenues and assets, but have relatively higher margins. As a result, we have seen lower revenues in the life insurance operations each year from fiscal 2002 and asset growth has ceased. Since fiscal 2002, we have also begun to sell some securities and replace them with corporate loans as an effort to diversify the asset portfolio.

We expect to continue this strategy of marketing primarily insurance-only products and seek to improve profitability. However, it may take some time before we are able to realize this goal. In addition, because a larger amount of the savings-type products will start to be repaid from fiscal 2004, we expect assets in this segment to decline in the foreseeable future.

Other

This segment recorded a strong improvement in profits. Primarily as a result of an increase in interest on consumer card loans due to a higher balance of assets as well as contribution from the securitization of loans in the card loan business, profits in the year ended March 31, 2003 increased by 71%. The outstanding balance of segment assets as of March 31, 2003 increased by 10%, primarily due to an increase in balance of card loans and an increase in investments related to the corporate restructuring business.

If securitized assets are included, the balance of our card loans increased three-fold from March 31, 2000 to March 31, 2003. Since the second half of fiscal 2003, however, we have attempted to slow the growth in card loans in consideration of the increase of personal bankruptcies in Japan as we focus on maintaining the credit quality of these loans.

Overseas Business Segments

The Americas

Segment profits in the Americas in the year ended March 31, 2003 increased 64%. While our commercial mortgage-backed securities operations had lower earnings as compared to the previous fiscal year, costs associated with restructuring of our truck and construction equipment leasing business decreased. The segment assets as of March 31, 2003 decreased 22%, due primarily to a reduction in leasing assets and the appreciation of the yen.

In the fiscal years ended March 31, 2002 and 2003, we also recorded write-downs of securities, which were primarily high yield bonds, in the Americas segment totaling approximately ¥7 billion and ¥5 billion, respectively. The high yield debt investments were originally conducted by ORIX USA Corporation (OUC), but were transferred to ORIX Capital Markets (OCM) in 2001. The investment in high yield bonds has decreased from ¥45,649 million to ¥31,722 million as a result of sales of securities and write-downs. We will continue to make investments in high yield bonds through a new team at OCM.

OCM has been the largest contributor to earnings in the Americas segment in recent years. Even though profitability declined somewhat in fiscal 2003 as a result of lower servicing income and interest income as a result of lower interest rates in the United States, this subsidiary remains to be an important component of our operations in the Americas. We expect to continue to pursue selected opportunities in the commercial mortgage and corporate debt markets for investment and loan servicing.

In fiscal 1999 and 2000, the Americas segment performed strongly as a result of strong growth in almost all of our operations in the United States. In fiscal 2001, however, there was a substantial increase in provisions for doubtful receivables and probable loan losses as a result of deterioration of assets of OFS, particularly in its truck leasing portfolio. In fiscal 2002, weakening conditions in the U.S. economy continued to adversely affect the leasing business related to transportation, construction and other heavy

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equipment, resulting in an increase in doubtful receivables for direct financial leases. In response to this, we restructured OFS, which included replacing some members of senior management and reducing the number of employees. In addition, a specialist recovery team was set up to pursue a quick recovery on problem loans. At the same time, we attempted to diversify our portfolio by increasing activities in business credit, structured finance and other new lending businesses. While the restructuring of these operations was essentially completed by the end of fiscal 2003, we are still cautious about expanding our operations because of concerns we have with the American economy.

Asia and Oceania

In Asia and Oceania, segment profits increased 80%. Strong performance by our corporate lending and automobile leasing operations in the region and contributions from equity method affiliates contributed to this increase in segment profits.

Our operations in Asia and Oceania were adversely affected in the wake of the Asian Currency Crisis of 1997 and we recorded segment losses in this segment in fiscal 1998 and 1999. However, in recent years, we have seen a gradual recovery in most of the economies where we do business, and a lower level of non-performing assets and greater profitability at many subsidiaries in the region. We have designated automobile leasing as one strategic growth area, and we are continuing to expand this operation in many countries where we do business. We have also seen some opportunities for investment banking activities, which includes the investment in Korea Life. In recent months, however, the economies of Hong Kong, Singapore and Taiwan have shown signs of weakness as a result of continued competitive pressures from China and concerns of the outbreak of SARS.

Europe

Segment losses for the year ended March 31, 2003 amounted to ¥736 million. While the sale of investment securities contributed to profits in the previous fiscal year, no similar contributions were made in fiscal 2003. A decline in assets and losses at equity method affiliates also contributed to the loss. Segment assets as of March 31, 2003 decreased 34%, primarily due to the appreciation of the yen, the sale of some aircraft and a lower balance of loans and investment securities.

The operating assets in the Europe segment have decreased by over 50% since March 31, 2000. We have not found many new opportunities in this region and we expect the downward trend in assets to continue. Our single largest operation in terms of assets is our aircraft leasing operations carried out by ORIX Aviation in Ireland. This operation makes up approximately half of the segment s ¥75,207 million of operating assets. We sold three aircraft in fiscal 2003, and expect to sell more if an opportunity arises. While all our aircraft were leased as of March 31, 2003, we experienced a fall in leasing rates in fiscal 2003. The airline industry globally has suffered since the terrorist attacks in the United States in 2001. We do not have the intention to expand aircraft leasing and are likely to remain cautious until there is sustained improvement in the global airline industry.

Year Ended March 31, 2002 Compared to Year Ended March 31, 2001

Performance Summary

	Year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Income statement data				
Total revenues	¥586,149	¥658,462	¥72,313	12%
Total expenses	529,001	585,093	56,092	11%
Operating income	57,148	73,369	16,221	28%
Income before extraordinary gain, cumulative effect of a change in accounting principle and income taxes	59,236	73,039	13,803	23%
Net income	34,157	40,269	6,112	18%

Total Revenues

	Year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Total Revenues:				
Direct financing leases	¥122,003	¥121,914	¥ (89)	(0)%
Operating leases	113,478	120,807	7,329	6%
Interest on loans and investment securities	109,448	121,962	12,514	11%
Brokerage commissions and net gains on investment securities	12,055	18,367	6,312	52%
Life insurance premiums and related investment income	158,314	152,333	(5,981)	(4)%
Residential condominium sales	36,928	58,078	21,150	57%
Interest income on deposits	2,520	1,374	(1,146)	(45)%
Other operating revenues	31,403	63,627	32,224	103%
Total	¥586,149	¥658,462	¥72,313	12%

Total revenues for the fiscal year ended March 31, 2002 increased by 12%. This increase reflected principally an increase of ¥32,224 million in other operating revenues primarily due to building maintenance operations and revenues from real estate-related businesses and ¥21,150 million of residential condominium sales, as well as smaller increases in revenues from operating leases, brokerage commissions and net gains on investment securities and interest on loans and investment securities. The increase in total revenues was partially offset by a decrease in revenues from life insurance premiums and related investment income and smaller declines in revenues from direct financing leases and interest income on deposits.

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Total Expenses

	Year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Total Expenses:				
Interest expense	¥109,289	¥ 90,348	¥(18,941)	(17)%
Depreciation operating leases	68,316	77,047	8,731	13%
Life insurance costs	143,709	139,786	(3,923)	(3)%
Costs of residential condominium sales	32,078	49,517	17,439	54%
Other operating expenses	11,502	29,614	18,112	157%
Selling, general and administrative expenses	101,156	126,316	25,160	25%
Provision for doubtful receivables and probable loan losses	44,584	51,367	6,783	15%
Write-downs of long-lived assets	4,090	2,716	(1,374)	(34)%
Write-downs of securities	10,848	19,742	8,894	82%
Foreign currency transaction loss (gain), net	3,429	(1,360)	(4,789)	( )%
Total	¥529,001	¥585,093	¥ 56,092	11%

Total expenses for the year ended March 31, 2002 increased by 11%. Corresponding to an increase in revenues in operating leases, residential condominium sales and other operating revenues, operating lease depreciation expense, costs of residential condominium sales and other operating expenses grew in the year ended March 31, 2002, but life insurance costs declined in line with lower revenues. Selling, general and administrative expenses increased primarily as a result of the increase in the number of consolidated companies as well as the on-going restructuring of one of our subsidiaries in the United States. We also increased write-downs of securities, as well as provision for doubtful receivables and probable loan losses. Interest expense decreased due to declines in market interest rates and efficient procurement of funding from capital markets. Write-downs of long-lived assets also decreased. We also recorded a gain from foreign currency transactions compared to a loss in the same period in the previous year.

Operating Income, Income Before Extraordinary Gain, Cumulative Effect of a Change in Accounting Principle and Income Taxes and Net Income

Operating income for the year ended March 31, 2002 increased 28%, or ¥16,221 million, to ¥73,369 million from ¥57,148 million in the year ended March 31, 2001. Income before extraordinary gain, cumulative effect of a change in accounting principle and income taxes in the year ended March 31, 2002 increased by 23%, or ¥13,803 million, to ¥73,039 million, from the year ended March 31, 2001.

Net income increased 18%, to ¥40,269 million, in the year ended March 31, 2002 from the year ended March 31, 2001. Basic and diluted earnings per share in the year ended March 31, 2002 were ¥489.19 and ¥467.11, respectively, compared to ¥417.77 and ¥400.99 in the year ended March 31, 2001.

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Operating assets

	As of March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Operating assets				
Investment in direct financing leases	¥1,657,709	¥1,658,669	¥ 960	0%
Installment loans	1,846,511	2,273,280	426,769	23%
Investment in operating leases	451,171	474,491	23,320	5%
Investment in securities	942,158	861,336	(80,822)	(9)%
Other operating assets	132,006	260,373	128,367	97%
Total operating assets	5,029,555	5,528,149	498,594	10%
Other assets	561,756	822,070	260,314	46%
Total assets	¥5,591,311	¥6,350,219	¥758,908	14%

Operating assets increased 10%. While substantial acquisitions of direct financing leases were made during the fiscal year ended March 31, 2002, approximately ¥203 billion in lease receivables was securitized during the year and total investment in direct financing leases remained almost unchanged compared with the previous fiscal year. However, growth in installment loans and other operating assets led to an increase in our operating assets.

The table below sets forth the volume of new assets for the fiscal years ended March 31, 2001 and March 31, 2002.

	Year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Volume of new assets				
Direct financing leases: new receivables added	¥842,396	¥1,083,070	¥240,674	29%
Direct financing leases: new equipment acquisitions	723,330	980,379	257,049	36%
Installment loans: new loans added	740,639	1,340,400	599,761	81%
Operating leases: new equipment acquisitions	143,158	146,203	3,045	2%
Investment in securities: new securities added	397,218	348,347	(48,871)	(12)%
Other operating assets: new assets added	128,984	204,121	75,137	58%

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.

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Revenues, New Business Volumes and Operating Assets

Direct financing leases

	As of and for the year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Direct financing leases				
Direct financing lease revenues	¥ 122,003	¥ 121,914	¥ (89)	(0)%
Japan	77,365	84,151	6,786	9%
Overseas	44,638	37,763	(6,875)	(15)%
New receivables added	¥ 842,396	¥1,083,070	¥240,674	29%
Japan	603,971	877,969	273,998	45%
Overseas	238,425	205,101	(33,324)	(14)%
New equipment acquisitions	¥ 723,330	¥ 980,379	¥257,049	36%
Japan	519,839	798,712	278,873	54%
Overseas	203,491	181,667	(21,824)	(11)%
Investment in direct financing leases	¥1,657,709	¥1,658,669	¥ 960	0%
Japan	1,193,332	1,255,537	62,205	5%
Overseas	464,377	403,132	(61,245)	(13)%

Revenues from direct financing leases were ¥121,914 million for the year ended March 31, 2002 which was essentially unchanged from the year ended March 31, 2001. Increases in revenues from Japanese operations, principally from acquisitions of lease portfolios and from gains on the sale of securitized lease receivables, were offset by lower overseas revenues due to shrinkage of our leasing assets in the United States.

The average interest rate on direct financing leases in Japan, calculated on the basis of quarterly balances, in the year ended March 31, 2002, was 5.98% compared to 5.77% in the year ended March 31, 2001, due primarily to the higher volume of the auto leasing business, which has higher average rates compared to other leasing businesses. The average interest rate on overseas direct financing leases, calculated on the basis of quarterly balances, decreased to 8.96% in the year ended March 31, 2002 from 9.92% in the year ended March 31, 2001, reflecting decreases in market interest rates.

New receivables added related to direct financing leases increased 29% in the year ended March 31, 2002 primarily due to the acquisition of IFCO. New receivables added decreased 14% overseas due to a decline in new business in the United States, but increased 45% in Japan mainly as a result of merger and acquisition transactions involving Senko Lease, IFCO and Hiroshima General Leasing Co., Ltd (name changed to Momiji Lease Corporation). New equipment acquisitions for the year ended March 31, 2002 increased 36% due to the same factors for new receivables added.

Investment in direct financing leases of ¥1,658,669 million for the year ended March 31, 2002 was essentially unchanged from the previous fiscal year, as an increase in investment in direct financing leases of transportation equipment was offset by decreases in investments in other categories of direct financing leases. Investment in direct financing leases of transportation equipment increased primarily as a result of our acquisition in September 2001 of an 80% interest in IFCO, a former subsidiary of Isuzu Motors Limited, for ¥20 billion. IFCO is a truck leasing company with approximately 67,000 vehicles under lease and approximately ¥300 billion in total assets as of September 2001. However, weak private-sector capital investments and our selective approach to new leasing contracts in Japan with an emphasis on profitability over asset growth caused the overall balance of leasing contracts in Japan for all other categories of equipment to decline. In addition, increases in investment in direct financing leases in the year ended March 31, 2002 were partially offset by the securitization of leasing assets. The balance of overseas leasing contracts also decreased, reflecting the on-going restructuring of our U.S. subsidiary, OFS and general economic conditions in the United States.

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As of March 31, 2002, no single lessee represented more than 1% of our total portfolio of direct finance leases. As of March 31, 2002, 76% of our direct financing leases were to lessees located in Japan, and 24% of our direct financing leases were to lessees located overseas, of which 15% were to lessees located in the United States.

Balances for investment in direct financing leases in the table above do not include securitized lease assets. However, gains from securitization are included in direct financing lease revenues. During the year ended March 31, 2002, we securitized ¥188,853 million of leasing assets in Japan and ¥13,914 million of overseas assets and during the year ended March 31, 2001 we securitized ¥167,802 million of leasing assets in Japan and ¥17,064 million of overseas assets. If securitized assets are included, the total balance of investment in direct financing lease assets would be ¥1,968,872 million as of March 31, 2001, and ¥2,033,818 million as of March 31, 2002. The balance of direct financing lease assets treated as off-balance sheet assets amounted to ¥375,149 million as of March 31, 2002 and ¥311,163 million as of March 31, 2001. Gains from the securitization of these assets of ¥6,159 million were included in direct financing lease revenues for the fiscal year ended March 31, 2002 and ¥3,722 million for the year ended March 31, 2001.

	As of March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Investment in direct financing leases by category				
Information-related and office equipment	¥ 334,174	¥ 262,524	¥ (71,650)	(21)%
Industrial equipment	372,542	286,942	(85,600)	(23)
Commercial services equipment	193,624	186,115	(7,509)	(4)
Transportation equipment	415,246	603,843	188,597	45
Other equipment	342,123	319,245	(22,878)	(7)
Total	¥1,657,709	¥1,658,669	¥ 960	0%

Investment in direct financing leases of information-related and office equipment decreased 21% as of March 31, 2002, due primarily to the securitization of lease receivables.

Investment in direct financing leases of industrial equipment decreased 23% as of March 31, 2002, largely due to the reduction of leasing assets at OFS in the United States.

Investment in direct financing leases of commercial services equipment decreased 4% as of March 31, 2002, due primarily to the reduction of leasing assets at OFS in the United States

Investment in direct financing leases of transportation equipment increased 45% as of March 31, 2002. Merger and acquisition transactions in Japan increased the balance of transportation equipment leases.

Investment in direct financing leases of other equipment decreased 7% as of March 31, 2002. This decrease was due primarily to securitization of lease assets in Japan.

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Asset quality of our direct financing leases

	As of March 31,		
	2000	2001	2002
	(In millions of yen, except percentage data)		
Past due direct financing leases and allowances for direct financing leases			
90+ days past due direct financing leases	¥53,743	¥53,515	¥67,924
90+ days past due direct financing leases as a percentage of the balance of investment in direct financing leases	3.08%	3.23%	4.10%
Provisions as a percentage of average balance of investment in direct financing leases	1.14%	1.31%	1.29%
Allowance for direct financing leases	¥35,783	¥40,885	¥50,837
Allowance for direct financing leases as a percentage of the balance of 90+ days past due direct financing leases	66.58%	76.40%	74.84%
Allowance for direct financing leases as a percentage of the balance of investment in direct financing leases	2.05%	2.47%	3.06%

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

The allowance for direct financing leases increased at March 31, 2002 mainly due to the consolidation of IFCO which was acquired by ORIX in September 2001.

We believe that the ratio of allowance for doubtful receivables as a percentage of the balance of investment in direct financing leases was adequate as of March 31, 2002, for the following reasons:

lease receivables are generally diversified and the amount of the realized loss on each contract is likely to be relatively small,

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, and

the allowance for doubtful receivables on direct financing leases as a percentage of the balance of 90+ days past due direct financing leases increased to 74.84% as of March 31, 2002.

The ratio of charge-offs as a percentage of the balance of the investment in direct financing leases was 0.41%, 1.20% and 1.24% for fiscal 2000, 2001 and 2002, respectively.

Operating leases

	As of and for the year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Operating leases				
Operating lease revenues	¥113,478	¥120,807	¥ 7,329	6%
Japan	83,612	87,732	4,120	5%
Overseas	29,866	33,075	3,209	11%
New equipment acquisitions	¥143,158	¥146,203	¥ 3,045	2%
Japan	114,784	116,933	2,149	2%

Overseas	28,374	29,270	896	3%
Investment in operating leases	¥451,171	¥474,491	¥23,320	5%
Japan	320,638	338,719	18,081	6%
Overseas	130,533	135,772	5,239	4%

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Revenues from operating leases for the year ended March 31, 2002 increased by 6%, primarily as a result of increases in revenues from automobile leasing operations in Japan and overseas. Gains from the disposition of operating lease assets included in revenues from operating leases were ¥3,467 million in the year ended March 31, 2002, compared to ¥7,883 million in the year ended March 31, 2001.

New equipment acquisitions of operating leases increased by 2%, reflecting the acquisitions in Japan of Nihon Jisho Corporation and IFCO Rent-A-Car Inc. and an automobile leasing company in Thailand.

The balance of our investment in operating leases increased by 5%, or ¥23,320 million, from March 31, 2001 to March 31, 2002, primarily as a result of the acquisition in April 2001 of the operating assets of Nihon Jisho. These assets included office buildings and residential properties owned and operated by Nihon Jisho and land for residential subdivision development. In addition, our investment in operating leases increased due to our acquisition of an automobile leasing company in Thailand in August 2001 and the acquisition in September 2001 of IFCO, which included some transportation equipment operating leases.

	As of March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Investment in operating leases by category				
Transportation equipment	¥165,218	¥187,605	¥22,387	14%
Measuring equipment and personal computers	77,808	71,527	(6,281)	(8)%
Real estate and other	208,145	215,359	7,214	3%
Total	¥451,171	¥474,491	¥23,320	5%

Installment loans and investment securities

Installment loans

	As of and for the year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Installment loans				
Interest on installment loans	¥ 85,441	¥ 99,732	¥ 14,291	17%
Japan	58,100	70,135	12,035	21%
Overseas	27,341	29,597	2,256	8%
New loans added	¥ 740,639	¥1,340,400	¥599,761	81%
Japan	658,243	1,144,667	486,424	74%
Overseas	82,396	195,733	113,337	138%
Installment loans	¥1,846,511	¥2,273,280	¥426,769	23%
Japan	1,489,065	1,840,289	351,224	24%
Overseas	357,446	432,991	75,545	21%

Interest on installment loans increased by 17% for the year ended March 31, 2002. Interest on installment loans in Japan increased by 21% due primarily to increased revenues from consumer card loan operations and housing loans, while interest on overseas installment loans increased by 8% as a result of increased loan revenues from subsidiaries in Asia and Oceania.

The average interest rate earned on loans in Japan, calculated on the basis of quarterly balances, slightly decreased to 4.00% in fiscal 2002 from 4.19% in fiscal 2001 primarily due to declines in market interest rates offset by increases in card loans of which interest rates are higher than corporate loans. The average interest rate earned on overseas loans, calculated on the basis of quarterly balances, decreased to 7.51% in the year ended March 31, 2002 from 9.29% in the year ended March 31, 2001 primarily due to declines in market interest rates in the United States.

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New loans added increased by 81% for the year ended March 31, 2002. New loans added in Japan increased by 74%, reflecting growth in loans to corporate customers, housing loans and consumer card loans. New loans added overseas increased by 138%, due largely to a rise in loans made by OFS and OCM in the United States.

Our balance of installment loans increased 23% as of March 31, 2002. Our balance of installment loans for borrowers in Japan increased by 24% and our balance of installment loans for overseas borrowers increased by 21% as a result of strong growth in loans to individuals in Japan and corporate lending in both Japan and overseas.

As of March 31, 2002, approximately 81% of loans were to borrowers in Japan and approximately 11% were to borrowers in the United States.

The table below sets forth the balances as of March 31, 2001 and 2002 of our installment loans to borrowers in Japan and overseas, categorized in the case of borrowers in Japan by type of consumer or corporate loan. A portion of these installment loans to corporate borrowers in Japan was held in connection with our life insurance operations.

	As of March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Installment loans				
Consumer borrowers in Japan				
Housing loans	¥ 392,896	¥ 557,461	¥164,565	42%
Card loans	181,215	230,358	49,143	27%
Other	43,959	44,829	870	2%
Subtotal	618,070	832,648	214,578	35%
Corporate borrowers in Japan				
Real estate-related companies	222,818	278,367	55,549	25%
Commercial and industrial companies	627,252	708,031	80,779	13%
Subtotal	850,070	986,398	136,328	16%
Total (Japan)	1,468,140	1,819,046	350,906	24%
Overseas commercial, industrial and other borrowers	357,446	432,771	75,325	21%
Loan origination costs, net	20,925	21,463	538	3%
Total	¥1,846,511	¥2,273,280	¥426,769	23%

As of March 31, 2002, we had no concentration of over 10% of total loans to borrowers in a single industry, other than loans to real estate-related companies. As of March 31, 2002, ORIX had loans outstanding of ¥311,609 million, representing 14% of total installment loans, to real estate-related companies and construction companies, which are included in loans to corporate borrowers in Japan. Of that amount, ¥65,611 million, or 3%, were classified as non-performing loans in accordance with FASB Statement No. 114. An allowance of ¥31,045 million was allocated to these non-performing 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, 2002 increased 35%. Housing loans increased by 42% and card loans increased by 27%. The balance of consumer housing loans increased largely due to acquisitions and the balance of card loans increased as a result of continued expansion of new businesses at the card loan subsidiaries.

The balance of loans to corporate borrowers in Japan increased by 16% as of March 31, 2002. This increase was due to increases in real-estate related project finance.

The balance of loans to overseas commercial, industrial and other borrowers increased by 21% as of March 31, 2002. The loan balance in the overseas market increased primarily as a result of increases in the balance of corporate loans and commercial mortgage loans in the United States.

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Balances of installment loans in the table above do not include securitized assets. However, the amounts of interest on loans include gains from the securitization of installment loans. In the year ended March 31, 2002, we securitized ¥46,062 million of installment loans and ¥27,563 million in the year ended March 31, 2001. If securitized loans are included, the total balance of installment loans would be ¥2,349,242 million as of March 31, 2002 and ¥1,887,596 million as of March 31, 2001. The balance of installment loans treated as off-balance sheet assets amounted to ¥75,962 million as of March 31, 2002 and ¥41,085 million as of March 31, 2001. Gains from the securitization of loans of ¥3,076 million were included in interest on installment loans in the year ended March 31, 2002 and ¥1,006 million in the year ended March 31, 2001.

Asset quality of our installment loans

	As of and for the year ended March 31,		
	2000	2001	2002
	(In millions of yen)		
Loans considered impaired in accordance with FASB Statement No. 114			
Impaired loans	¥125,921	¥120,090	¥113,000
Impaired loans requiring a valuation allowance	83,408	73,636	71,802
Valuation allowance	51,791	47,037	45,862

The valuation allowance for each period is the required valuation allowance less the value of the collateral from impaired loans, calculated in accordance with FASB Statement No. 114.

In the year ended March 31, 2002, a charge-off of impaired loans amounting to ¥8,475 million resulted in a decrease in the outstanding balances of impaired loans as of March 31, 2002 compared to March 31, 2001.

The table below sets forth the outstanding balances of impaired loans by region and type of borrowers. Consumer loans in Japan in the Others category primarily consist of loans secured by stock or golf club memberships.

	As of March 31,		
	2000	2001	2002
	(In millions of yen)		
Impaired loans			
Consumer borrowers in Japan			
Housing loans	¥	¥	¥
Card loans			
Others	646	625	2,193
Subtotal	646	625	2,193
Corporate borrowers in Japan			
Real estate-related companies	49,432	48,527	40,184
Commercial and industrial companies	64,131	59,288	58,338
Subtotal	113,563	107,815	98,522
Overseas commercial, industrial and other borrowers	11,712	11,650	12,285

Total	¥125,921	¥120,090	¥113,000

The table below sets forth information as to past due loans and allowance for installment loans, excluding amounts covered by FASB Statement No. 114. Average balances are calculated on the basis of fiscal quarter-end balances.

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	As of March 31,		
	2000	2001	2002
	(In millions of yen, except percentage data)		
Past due loans and allowance for installment loans			
90+ days past due loans not covered by FASB Statement No. 114	¥91,513	¥84,827	¥74,199
90+ days past due loans not covered by FASB Statement No. 114 as a percentage of the balance of installment loans not covered by FASB Statement No. 114	5.4%	4.9%	3.4%
Provisions as a percentage of average balance of installment loans	1.1%	1.0%	1.1%
Allowance for probable loan losses not covered by FASB Statement No. 114	¥49,365	¥53,155	¥56,188
Allowance for loans not covered by FASB Statement No. 114 as a percentage of the balance of 90+ days past due loans not covered by FASB Statement No. 114	53.9%	62.7%	75.7%
Allowance for loans not covered by FASB Statement No. 114 as a percentage of the balance of installment loans not covered by FASB Statement No. 114	2.96%	3.08%	2.60%

As of March 31, 2002, the allowance for loans not covered by FASB Statement No. 114 as a percentage of 90+ days past due loans not covered by FASB Statement No. 114 increased, reflecting a decline in value of collateral underlying assets and overall economic conditions in Japan which remained stagnant.

	As of March 31,		
	2000	2001	2002
	(In millions of yen)		
90+ days past due loans not covered by FASB Statement No. 114			
Consumer borrowers in Japan			
Housing loans	¥67,066	¥60,316	¥53,577
Card loans and other	16,825	14,832	9,585
Commercial borrowers in Japan			
Real estate-related companies	191	808	195
Commercial and industrial companies	2,103	2,050	2,192
Overseas commercial, industrial and other borrowers	5,328	6,821	8,650
Total	¥91,513	¥84,827	¥74,199

We believe that the level of the allowance as of March 31, 2002 was adequate because:

we expect to recover a portion of the outstanding balance for 90+ days past due loans (not covered by FASB Statement No. 114) primarily because most 90+ days past due loans are housing loans, which are generally made to individuals and generally secured by first mortgages, and

the allowance for probable loan losses not covered by FASB Statement No. 114 as a percentage of the balance of 90+ days past due loans not covered by FASB Statement No. 114 was 75.7% as of March 31, 2002.

The ratio of charge-offs as a percentage of the balance of installment loans was 0.83%, 0.86% and 1.00% for fiscal 2000, 2001 and 2002, respectively.

Investment securities

Investment by our life insurance operations was approximately 53% of our total investment in securities as of March 31, 2002. Overseas, we also have substantial holdings in corporate debt in the

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United States as well as emerging markets in Latin America, Eastern Europe and Southeast Asia. Our portfolio included investments by our U.S. operations in high yield debt securities with a balance of ¥45,649 million and in commercial mortgage-backed securities with a balance of ¥109,930 million as of March 31, 2002.

	As of March 31, 2001		
	Life insurance	Other operations	Total
	(In millions of yen)		
Investment securities			
Fixed income securities	¥519,995	¥256,514	¥776,509
Marketable equity securities	7,167	65,230	72,397
Other securities	9,975	83,277	93,252
Total	¥537,137	¥405,021	¥942,158

	As of March 31, 2002		
	Life insurance	Other operations	Total
	(In millions of yen)		
Investment securities			
Fixed income securities	¥433,463	¥242,956	¥676,419
Marketable equity securities	73	53,448	53,521
Other securities	23,596	107,800	131,396
Total	¥457,132	¥404,204	¥861,336

The balance of our investments in securities other than in connection with our life insurance operations decreased slightly to ¥404,204 million as of March 31, 2002 from ¥405,021 million as of March 31, 2001, primarily reflecting declines in the Japanese stock market and bond markets in the United States.

	As of and for the year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Investment securities				
Interest on investment securities	¥ 24,007	¥ 22,230	¥ (1,777)	(7)%
Japan	5,081	3,533	(1,548)	(30)%
Overseas	18,926	18,697	(229)	(1)%
New securities added	¥397,218	¥348,347	¥(48,871)	(12)%
Japan	315,634	304,248	(11,386)	(4)%
Overseas	81,584	44,099	(37,485)	(46)%
Investment in securities	¥942,158	¥861,336	¥(80,822)	(9)%
Japan	731,442	651,702	(79,740)	(11)%
Overseas	210,716	209,634	(1,082)	(1)%

Interest on investment securities other than those held in connection with our life insurance operations decreased 7% for the year ended March 31, 2002. This decrease was due to a decrease in the balance of investment in securities and lower interest rates both in Japan and overseas. The average interest rate earned on investment securities in Japan, calculated on the basis of quarterly balances, decreased to 2.31% in the year ended March 31, 2002 from 2.68% in the year ended March 31, 2001, primarily due to declines in market interest rates in Japan. The average interest rate earned on overseas investment securities, calculated on the basis of quarterly balances, decreased to 9.41% in the year ended March 31, 2002 from 10.03% in the year ended March 31, 2001 primarily due to declines in the market interest rates in the United States.

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New securities added decreased by 12% for the year ended March 31, 2002. New securities added in Japan decreased by 4% and new securities added overseas decreased 46% as a result of slight decreases in life insurance and venture capital operations in Japan, with larger decreases overseas against the background of weak market conditions.

The balance of our investment in securities decreased by 9% compared to March 31, 2001. Despite increases in other securities due to increased investment in preferred capital shares, the balance of our investment in securities in Japan decreased by 11% due primarily to the sale of investment securities by ORIX Life Insurance.

	As of March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Investment in securities by security type				
Trading securities	¥ 581	¥ 879	¥ 298	51%
Available-for-sale securities	841,409	718,919	(122,490)	(15)%
Held-to-maturity securities	13,005	16,008	3,003	23%
Other securities	87,163	125,530	38,367	44%
Total	¥942,158	¥861,336	¥ (80,822)	(9)%

Investment in trading securities increased by 51% as a result of an increase in corporate bonds purchased from the secondary market by ORIX Capital Markets in the United States. Similarly, investment in held-to-maturity securities increased by 23% and other securities increased by 44%, due to the purchase of preferred capital shares. In contrast, investment in available-for-sale securities decreased 15% because of a reduction of securities held by ORIX Life Insurance.

Brokerage commissions and net gains on investment securities

	Year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Brokerage commissions and net gains on investment securities				
Brokerage commissions	¥ 3,252	¥ 2,940	¥ (312)	(10)%
Net gains on investment securities	8,803	15,427	6,624	75%
Total	¥12,055	¥18,367	¥6,312	52%

Brokerage commissions and net gains on investment securities increased 52% in the year ended March 31, 2002. The increase resulted primarily from strong gains on venture capital investments in Japan, partially offset by a decrease in brokerage commissions due primarily to depressed conditions in the Japanese stock market.

As of March 31, 2002, gross unrealized gains on available-for-sale securities, including those held in connection with our life insurance operation, were ¥41,992 million, compared to ¥68,037 million as of March 31, 2001. As of March 31, 2002, gross unrealized losses on available-for-sale securities, including those held in connection with our life insurance operations, were ¥16,369 million, compared to ¥11,018 million as of March 31, 2001. Such unrealized gains decreased and unrealized losses increased primarily due to declines in the Japanese stock market and bond markets in the United States.

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Life insurance premiums and related investment income

	Year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Life insurance premiums and related investment income				
Life insurance premiums	¥141,528	¥135,479	¥(6,049)	(4)%
Life insurance-related investment income	16,786	16,854	68	0%
Total	¥158,314	¥152,333	¥(5,981)	(4)%

In the year ended March 31, 2002, life insurance premiums and related investment income decreased 4%. This decline was due to our policy of emphasizing the marketing of such products as term and whole life insurance that produce lower revenues but higher margins and discontinuing the sale of single premium endowment insurance in the first half of 2001.

	Year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Investments by ORIX Life Insurance				
Fixed-income securities	¥519,995	¥433,463	¥(86,532)	(17)%
Marketable equity securities	7,167	73	(7,094)	(99)%
Other securities	9,975	23,596	13,621	137%
Total investment in securities	537,137	457,132	(80,005)	(15)%
Other investments	6,749	86,606	79,857	1183%
Total	¥543,886	¥543,738	¥ (148)	(0)%

Fixed income securities decreased 17% compared with March 31, 2001, while other investments, which are made up primarily of loans, increased 1183% as securities were sold off and replaced with corporate loans as part of ORIX Life Insurance s portfolio management.

	Year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Breakdown of Life Insurance-Related Investment Income				
Net gains on investment securities	¥ 3,505	¥ 7,318	¥ 3,813	109%
Interest on loans and interest on investment securities, and others	13,281	9,536	(3,745)	(28)%
Total	¥16,786	¥16,854	¥ 68	0%

Residential condominium sales

	Year ended March 31,		Change	
	2001	**2002**	**Amount**	**Percent**
	(In millions of yen, except percentage data)			
Residential Condominium Sales	¥36,928	¥58,078	¥21,150	57%

Revenues from residential condominium sales increased by 57% in the year ended March 31, 2002, due to an increase in sales before certain Japanese tax incentives for home purchases were due to expire in June 2001. The deadline for expiry was subsequently extended. All revenues from residential condominium sales come from Japan.

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Interest income on deposits

Interest income on deposits in the year ended March 31, 2002 decreased by ¥1,146 million, or 46%, from the year ended March 31, 2001, principally as a result of a lower average balance of bank deposits.

Other operations

	As of and for the year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Other operations				
Other operating revenues	¥ 31,403	¥ 63,627	¥ 32,224	103%
Japan	22,153	51,652	29,499	133%
Overseas	9,250	11,975	2,725	29%
New assets added	¥128,984	¥204,121	¥ 75,137	58%
Japan	86,376	180,903	94,527	109%
Overseas	42,608	23,218	(19,390)	(46)%
Other operating assets	¥132,006	¥260,373	¥128,367	97%
Japan	106,778	248,216	141,438	132%
Overseas	25,228	12,157	(13,071)	(52)%

Other operating revenues increased 103% in the year ended March 31, 2002 primarily due to building maintenance operations and revenues from real estate-related businesses.

New assets added for the year ended March 31, 2002 increased 58% due to a large increase in new assets added from the purchase of properties for a REIT and the expansion of the condominium development business. Shares of the REIT were sold to the public in fiscal 2003.

The balance of other operating assets as of March 31, 2002 increased 97%, due to the increase in new assets added, particularly for assets purchased for inclusion in a REIT.

Expenses

Interest expense

Interest expense amounted to ¥90,348 million in the year ended March 31, 2002, a decrease of 17% from the year ended March 31, 2001, primarily as the result of declines in market interest rates both in Japan and overseas.

The average interest rate on our short-term and long-term debt in Japan, calculated on the basis of quarterly balances, was 1.30% in the year ended March 31, 2002, compared to 1.64% in the year ended March 31, 2001. The average interest rate on our short-term and long-term overseas debt, calculated on the basis of quarterly balances, decreased to 5.34% in the year ended March 31, 2002 from 6.81% in the year ended March 31, 2001.

Depreciation operating leases

Depreciation on operating leases increased to ¥77,047 million in the year ended March 31, 2002, an increase of 13% from the level in the year ended March 31, 2001. This increase primarily reflected the higher average asset balance of automobiles, measuring equipment and personal computers, which have relatively short periods for depreciation.

Life insurance costs

In line with a decrease in life insurance premiums and related investment income, life insurance costs decreased slightly in the year ended March 31, 2002 by ¥3,923 million, or 3%, to ¥139,786 million from the year ended March 31, 2001.

Costs of residential condominium sales

The increase in costs of residential condominium sales for the year ended March 31, 2002 corresponded to increased revenues from residential condominium sales during the same period.

Other operating expenses

Other operating expenses increased 157%, to ¥29,614 million, in the year ended March 31, 2002, reflecting increased expenses for building maintenance and real estate-related businesses.

Selling, general and administrative expenses

	Year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Selling, General and Administrative Expenses:				
Personnel expenses	¥ 41,464	¥ 57,115	¥15,651	38%
Selling expenses	17,934	21,197	3,263	18%
Administrative expenses	39,299	45,310	6,011	15%
Depreciation	2,459	2,694	235	10%
Total	¥101,156	¥126,316	¥25,160	25%

Selling, general and administrative expenses in the year ended March 31, 2002 increased 25%. This increase in expenses primarily reflected growth in existing businesses and an increase in the number of consolidated companies as well as the costs associated with the on-going restructuring of OFS.

Provision for doubtful receivables and probable loan losses

Provision for doubtful receivables and probable loan losses in the year ended March 31, 2002 was ¥51,367 million, an increase of 15% from the year ended March 31, 2001.

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	Year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Provision for doubtful receivables on direct financing leases and probable loan losses				
Beginning balance	¥136,939	¥141,077	¥ 4,138	3%
Direct financing leases	35,783	40,885	5,102	14%
Loans not covered by FASB Statement No. 114	49,365	53,155	3,790	8%
FASB Statement No. 114 impaired loans	51,791	47,037	(4,754)	(9)%
Provisions charged to income	¥ 44,584	¥ 51,367	¥ 6,783	15%
Direct financing leases	22,619	23,237	618	3%
Loans not covered by FASB Statement No. 114	16,417	21,240	4,823	29%
FASB Statement No. 114 impaired loans	5,548	6,890	1,342	24%
Charge-offs (net)	¥ (46,306)	¥ (49,340)	¥ (3,034)	7%
Direct financing leases	(20,679)	(21,364)	(685)	3%
Loans not covered by FASB Statement No. 114	(14,442)	(19,501)	(5,059)	35%
FASB Statement No. 114 impaired loans	(11,185)	(8,475)	2,710	(24)%
Other*	¥ 5,860	¥ 9,783	¥ 3,923	67%
Direct financing leases	3,162	8,079	4,917	156%
Loans not covered by FASB Statement No. 114	1,815	1,294	(521)	(29)%
FASB Statement No. 114 impaired loans	883	410	(473)	(54)%
Ending balance	¥141,077	¥152,887	¥11,810	8%
Direct financing leases	40,885	50,837	9,952	24%
Loans not covered by FASB Statement No. 114	53,155	56,188	3,033	6%
FASB Statement No. 114 impaired loans	47,037	45,862	(1,175)	(3)%

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

In the year ended March 31, 2002, charge-offs (net) increased by 7% primarily as a result of charge-offs of loans not covered by FASB Statement No. 114. The increase in the other category in the year ended March 31, 2002 compared to the year ended March 31, 2001 reflected primarily provisions added by the consolidation of IFCO which was acquired by ORIX in September 2001. See Direct financing leases.

In the year ended March 31, 2002, provisions charged to income were ¥51,367 million and direct financing leases and loans totaling ¥49,340 million were written off. As of March 31, 2002, the allowance was ¥152,887 million. The ratio of this figure to the balance of investment in direct financing leases and installment loans was 3.9% as of March 31, 2002, compared to 4.0% as of March 31, 2001.

The recorded investment in loans considered impaired in accordance with FASB Statement No. 114 was ¥120,090 million as of March 31, 2001 and ¥113,000 million as of March 31, 2002. The principal reason for the decline was a charge-off of impaired loans in the amount of ¥8,475 million.

The average recorded investments in impaired loans was ¥123,715 million for the year ended March 31, 2001 and ¥115,265 million for year ended March 31, 2002. We recognized interest income on impaired loans of ¥1,414 million for the year ended March 31, 2001 and ¥1,200 million for the year ended March 31, 2002.

Write-downs of long-lived assets

During the year ended March 31, 2002, in accordance with FASB Statement No. 121, we wrote down ¥2,716 million for certain developed and undeveloped properties in Japan which had become impaired.

Write-downs of securities

In the years ended March 31, 2001 and 2002, we charged ¥10,848 million and ¥19,742 million, respectively, to income for declines in market value classified as other than temporary. The write-downs for fiscal 2002 included approximately ¥7,000 million for bond investments in the United States due to a deterioration in the bond market and approximately ¥3,700 million for equity and bond investments related to Enron Corp.

Foreign currency transaction loss (gain), net

We recognized a foreign currency transaction gain in the amount of ¥1,360 million in the year ended March 31, 2002, compared to a loss of ¥3,429 million in the year ended March 31, 2001 that resulted primarily from the depreciation of the Indonesia Rupiah against the U.S. dollar.

Equity in Net Income (Loss) of Affiliates

Equity in net income (loss) of affiliates in the year ended March 31, 2002 was a loss of ¥449 million, compared to a gain of ¥29 million in the year ended March 31, 2001. The adverse result in the year ended March 31, 2002 primarily reflects losses incurred by Stockton Holdings Limited, our 29%-owned affiliate.

Gain on Sales of Affiliates

Gain on sales of affiliates in the year ended March 31, 2002 was a gain of ¥119 million, which consists of gain on sales of stock of an affiliate in Australia, compared to a net gain of ¥2,059 million in the year ended March 31, 2001 which included a gain on the sale of a leasing affiliate in Brazil.

Provision for Income Taxes

Provision for income taxes in the year ended March 31, 2002 was ¥32,903 million, compared to the provision of ¥25,079 million in the year ended March 31, 2001. The increase of ¥7,824 million was primarily due to an increase in income before extraordinary gain, cumulative effect of a change in accounting principle and income taxes.

Segment Information

Segments in Japan accounted for 85% and 92% of total segment profit in fiscal 2001 and 2002, respectively. As of March 31, 2002, ¥4,343 billion, or approximately 76%, of total segment assets were in Japan.

Segments overseas accounted for 15% and 8% of total segment profits in fiscal 2001 and 2002, respectively. As of March 31, 2002, ¥794 billion or 14%, of total segment assets were in the Americas, ¥435 billion or 8%, in Asia and Oceania, and ¥114 billion or 2%, in Europe.

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	Year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Segment revenues				
Business segments in Japan				
Corporate finance	¥113,113	¥118,794	¥ 5,681	5%
Equipment operating leases	61,677	67,319	5,642	9%
Real estate-related finance	24,262	31,582	7,320	30%
Real estate	48,438	85,516	37,078	77%
Life insurance	157,636	154,296	(3,340)	(2)%
Other	36,215	49,139	12,924	36%
Subtotal	441,341	506,646	65,305	15%
Overseas business segments				
The Americas	79,397	75,195	(4,202)	(5)%
Asia and Oceania	48,735	56,677	7,942	16%
Europe	15,151	14,716	(435)	(3)%
Subtotal	143,283	146,588	3,305	2%
Total	584,624	653,234	68,610	12%
Reconciliation of segment totals to consolidated amounts	1,525	5,228	3,703	243%
Total consolidated revenues	¥586,149	¥658,462	¥72,313	12%

	Year ended March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Segment profit (income before extraordinary gain, cumulative effect of a change in accounting principle and income taxes)				
Business segments in Japan				
Corporate finance	¥ 44,427	¥ 48,066	¥ 3,639	8%
Equipment operating leases	11,165	9,906	(1,259)	(11)%
Real estate-related finance	1,944	5,654	3,710	191%
Real estate	(4,604)	5,842	10,446	
Life insurance	5,982	5,764	(218)	(4)%
Other	1,035	4,941	3,906	377%
Subtotal	59,949	80,173	20,224	34%
Overseas business segments				
The Americas	8,896	810	(8,086)	(91)%
Asia and Oceania	1,203	5,433	4,230	352%
Europe	716	600	(116)	(16)%
Subtotal	10,815	6,843	(3,972)	(37)%
Total segment profit (loss)	70,764	87,016	16,252	23%
Reconciliation of segment totals to consolidated amounts	(11,528)	(13,977)	(2,449)	

Total consolidated income before extraordinary gain, cumulative effect of a change in accounting principle and income taxes	¥ 59,236	¥ 73,039	¥13,803	23%

	As of March 31,		Change	
	2001	2002	Amount	Percent
	(In millions of yen, except percentage data)			
Segment assets				
Business segments in Japan				
Corporate finance	¥1,889,538	¥1,960,380	¥ 70,842	4%
Equipment operating leases	134,270	147,444	13,174	10%
Real estate-related finance	606,801	1,012,896	406,095	67%
Real estate	310,340	326,473	16,133	5%
Life insurance	543,886	543,738	(148)	(0)%
Other	284,835	352,433	67,598	24%
Subtotal	3,769,670	4,343,364	573,694	15%
Overseas business segments				
The Americas	804,118	794,330	(9,788)	(1)%
Asia and Oceania	402,707	435,093	32,386	8%
Europe	158,646	113,844	(44,802)	(28)%
Subtotal	1,365,471	1,343,267	(22,204)	(2)%
Total	5,135,141	5,686,631	551,490	11%
Reconciliation of segment totals to consolidated amounts	(105,586)	(158,482)	(52,896)	
Total consolidated operating assets	¥5,029,555	¥5,528,149	¥498,594	10%

Business Segments in Japan

Corporate finance

Segment profits for corporate finance in the year ended March 31, 2002 increased 8%. The combination of lower interest rates, growth in direct financing leases as a result of acquisitions and increased corporate lending contributed to profit growth. The balance of segment assets as of March 31, 2002 increased 4% primarily as a result of the acquisition of IFCO. in September 2001, partially offset by the effects of the securitization of approximately ¥190 billion of lease receivables in Japan during the year ended March 31, 2002.

Equipment operating leases

In the year ended March 31, 2002, segment profits for equipment operating leases decreased 11% due primarily to the slowdown in IT-related businesses and the resulting lower utilization rates in rentals of measuring and other equipment. However, the operating margin (income before extraordinary gain, cumulative effect of a change in accounting principle and income taxes divided by operating assets) remained at a relatively high level compared with other segments.

Real estate-related finance

Segment profit for real estate-related finance for the year ended March 31, 2002 increased 191%. Real estate-related finance assets as of March 31, 2002 increased 67%. Helped by acquisitions of quality assets, housing loans to individuals grew strongly, while non-recourse corporate loans and other transactions grew steadily as a result of successfully marketing products that met specific customer needs. In addition, approximately ¥100 billion of real estate assets for the JREIT were accumulated in the year ended March 31, 2002 and are included in this segment s assets.

Real estate

For the year ended March 31, 2002, the real estate segment recorded a profit of ¥5,842 million compared to a loss of ¥4,604 million for the year ended March 31, 2001, primarily due to a substantial increase of contribution from condominium development projects compared with the previous year and lower write-downs of long-lived assets.

Life insurance

Segment profits in the life insurance business in the year ended March 31, 2002 decreased 4% as write-downs of securities were required amid deteriorating market conditions.

Other

This segment recorded a strong improvement in profits. Primarily as a result of net gains on the sale of investment securities related to our venture capital investments and growth in the card loan business, profits in the year ended March 31, 2002 increased by 377%. The outstanding balance of segment assets as of March 31, 2002 increased by 24%, primarily due to an increase in card loans.

Overseas Business Segments

The Americas

Segment profits in the Americas in the year ended March 31, 2002 decreased 91%. The commercial mortgage-backed securities business in the United States and the sale of some real estate contributed to income, but profits dropped sharply due to write-downs of high-yield securities as corporate profits in the telecommunications and other industries worsened, as well as large provisions for our transportation and commercial equipment leasing at OFS and restructuring costs related to this subsidiary.

Asia and Oceania

In Asia and Oceania, segment profits during the year ended March 31, 2002, increased by 352%. While economic conditions throughout the region were sluggish, careful selection of businesses in the financing lease and installment loan operations combined with foreign currency exchange gains, which we recorded a loss the previous fiscal year, resulted in a increase in profits.

Europe

Segment profits for the year ended March 31, 2002 amounted to ¥600 million, primarily reflecting profits from corporate finance services. Segment profits decreased 16%, however, primarily due to write-downs of securities.

Liquidity and Capital Resources

Overview

We continually require funds for working capital and to grow our business. We manage our funding and liquidity by monitoring the relative maturities of assets and liabilities and by borrowing funds, primarily in the Japanese financial and capital markets but also in significant amounts overseas. Funds raised are used to fund asset growth and to meet debt obligations and other commitments, on a timely and cost-effective basis. We place a priority on the ready and rapid access to funding in order to be able to respond rapidly to client and transactional requirements. By monitoring cash flow requirements from sales and marketing activities, and the funding supply and demand balance, we seek to ensure timely and ample access to funding. Our primary sources of funding are borrowings from commercial banks and other institutional lenders, commercial paper (CP), medium term notes (MTN), straight bonds, asset-backed securitizations and other term debt.

To facilitate funding operations, ORIX has obtained credit ratings for its notes and bonds from two Japanese rating agencies. As of June 30, 2003, ORIX s straight bonds issued in Japan and a euro MTN program have been assigned A+ ratings by both Rating and Investment Information Inc. (R&I) and Japan Credit Rating Agency, Ltd. (JCR). ORIX s CP in Japan is rated a-1 by R&I and J-1 by JCR.

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In May 2003, JCR downgraded ORIX s credit ratings one notch from AA- to A+ for straight bonds and our euro MTN program and from J-1+ to J-1 for CP. In June 2003, R&I downgraded ORIX s ratings by one notch from AA- to A+ and from a-1+ to a-1. Both agencies cited concerns over the Japanese economy, in particular continued asset deflation, and risks associated with new businesses as reasons for the downgrades. As of June 30, 2003, the downgrades have not had an adverse impact on our liquidity, and we have been able to maintain stable access to funding. However, we cannot guarantee that liquidity will not be affected by the downgrades, and the downgrades will result in increased interest expenses if we are required to pay a higher premium for funding from financial institutions and the capital markets.

We believe that our working capital is sufficient for our present requirements due to our diversification of funding sources and to the inflow of cash from our leasing, lending and other operations, which can be used to repay debt or execute new transactions. A downgrade in our credit ratings could result in an increase in our interest expense and could have an adverse impact on our ability to access the CP market or the public and private debt markets, which could have an adverse effect on our financial position and liquidity. Even if we are unable to access these markets on acceptable terms, we have access to other sources of liquidity, including bank borrowings, cash flows from our operations and sales of our assets. We cannot be sure, however, that these other sources will be adequate if our credit ratings are downgraded or other adverse conditions arise. In addition, our subsidiaries may be restricted from paying dividends for various reasons, including because of requirements under the Japanese Commercial Code and, for regulated subsidiaries, capital adequacy requirements. We do not expect such restrictions to have a significant impact on the ability of ORIX to meet its cash obligations.

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

For a discussion of short-term and long-term debt, see Note 13 of Item 18. Financial Statements.

Sources of Liquidity

Our funding operations include borrowings from financial institutions and direct fund procurement from the capital markets. On a consolidated basis, the share of our funds procured directly from capital markets was 53% at the end of fiscal 2002, and 48% at the end of fiscal 2003. The decline was primarily due to a reduction in commercial paper. In line with such factors as changes in the financial environment, we promptly adjust our direct funding ratio, aiming consistently to maintain an optimal funding structure.

As deregulation gains momentum in Japan, we have diversified our funding by continually seeking out and developing new procurement methods. Moreover, by targeting a wide range of investors, we have attempted to make our funding operations increasingly diverse and stable.

Borrowings from Financial Institutions

Among our diverse borrowing sources are city banks, trust banks, regional banks, life insurance companies, casualty insurance companies, agricultural-related financial institutions and foreign banks. We had borrowings from 186 such financial institutions and companies as of March 31, 2003.

Bonds

Capitalizing on the expansion of the bond market in Japan, we have actively issued yen-denominated straight bonds in the Japanese market. In order to further diversify funding methods and investors, we issue bonds that are primarily for institutional investors and those that are primarily for individual investors. During fiscal 2003, we issued ¥63,000 million in straight bonds (including private placements) to institutional investors and ¥90,000 million to individuals, while the balances of outstanding bonds other than convertible bonds held by institutional and individual investors were ¥388,000 million and ¥370,000 million, respectively. As part of our continued efforts to diversify funding sources, in June 2002 we issued zero coupon senior bonds with stock acquisition rights, due June 14, 2022 (par value of $1,022 million), and procured $400 million.

CP

The prohibition on the issuance of CP by finance companies in Japan was eliminated in 1993. In April 1998, the sale of CP in Japan directly to investors without going through brokers was made possible by additional deregulation. We have worked to increase the number of investors to whom we directly sell CP, which includes a continually growing number of entities such as asset management companies, life and casualty insurance companies, regional banks, other financial institutions, and other types of companies. As of March 31, 2003, the number of direct investors in ORIX CP was 407, and these investors accounted for 70% of the balance of ORIX s outstanding CP in Japan.

In addition, ORIX has been proactively working to help realize a paperless CP system. In June 2001, the Japanese Diet passed the Bill Concerning the Transfer and Settlement of Debentures, which took effect in April 2002. After completion of the clearing system of the Japan Securities Depositary Center, Inc., paperless trading of electronic CP in Japan commenced on March 31, 2003, and ORIX was one of the first participants in this new system. While attempting to control the risks associated with settlement and clearance in connection with these transactions, we plan to issue paperless CP to broaden our base of CP investors and hopefully expand the overall market. With the acceptance and expansion of paperless CP in Japan, we expect to reap the benefits of a deeper and more efficient CP market.

MTN

For overseas funding operations, in addition to borrowing from local markets, we have sought to increase the diversity of our funding methods through such measures as MTN issuance. ORIX and five overseas subsidiaries are participants in a Multi Issuer Euro MTN program with a maximum issuance limit of $5 billion. Euro MTN issuance is determined based on the funding needs of overseas companies supervised by ORIX s Treasury Department in Tokyo. Also, OFS has a program for the issuance of MTNs within the United States. As of March 31, 2003, the outstanding balance of ORIX s euro and U.S. dollar MTNs was ¥245,300 million.

Securitization

In January 1992, we became the first company in Japan to securitize leasing assets. Subsequently, we have actively proceeded with asset securitization in Japan and overseas. As of March 31, 2003, the outstanding balance of securitized assets, including such assets as lease and loan assets, stood at ¥631,824 million. Of this figure, the portion accounted for as off-balance sheet assets was ¥508,428 million.

Cash and Cash Equivalents

As of March 31, 2003, we had cash and cash equivalents of ¥204,677 million, which are primarily denominated in yen.

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Levels of Borrowings

Short-term Debt

	As of March 31,		Change	
	2002	2003	Amount	Percent
Short-term debt				
Borrowings from Financial Institutions	¥ 631,530	¥ 593,171	¥ (38,359)	(6)%
Commercial Paper	1,012,932	527,263	(485,669)	(48)%
Total short-term debt	¥1,644,462	¥1,120,434	¥(524,028)	(32)%

The balance of our short-term debt as of March 31, 2003 was ¥1,120,434 million, representing 28% of total debt compared to 37% as of March 31, 2002. As a result of a shift to a higher portion of long-term debt, the balance of short-term debt as of March 31, 2003 decreased by 32%.

Long-term Debt

	As of March 31,		Change	
	2002	2003	Amount	Percent
Long-term debt				
Borrowings from financial institutions	¥1,582,073	¥1,593,879	¥ 11,806	1%
Bonds	862,688	894,038	31,350	4%
Medium-term notes	324,369	245,300	(79,069)	(24)%
Payable under securitized lease and loan receivables	40,731	123,396	82,665	203%