

ORIX CORP  
Form 6-K  
December 26, 2006  
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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 6-K

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REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 OF

THE SECURITIES EXCHANGE Act of 1934

For the month of December, 2006.

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## ORIX Corporation

(Translation of Registrant's Name into English)

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Mita NN Bldg., 4-1-23 Shiba, Minato-Ku,

Tokyo, JAPAN

(Address of Principal Executive Offices)

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(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F  Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes  No

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**Table of Documents Filed**

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|--|-------------|
| 1. <u>English translation of semi-annual financial report (<i>hanki houkokusho</i>) of ORIX Corporation ( the Company ) filed with the Kanto Financial Bureau and the Tokyo Stock Exchange in Japan on December 22, 2006. This document is an English translation of consolidated financial information prepared in accordance with generally accepted accounting principles in the United States ( U.S. GAAP ) for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006. This translation is unaudited.</u> |             |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ORIX Corporation**

Date: December 25, 2006

By /s/ Shunsuke Takeda  
Shunsuke Takeda  
Director  
Vice Chairman and CFO  
ORIX Corporation

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**THE CONSOLIDATED FINANCIAL INFORMATION**

1. On December 22, 2006, ORIX Corporation ( the Company ) filed its semi-annual financial report (hanki houkokusho) with the Kanto Financial Bureau and the Tokyo Stock Exchange in Japan. This document is an English translation of consolidated financial information prepared in accordance with generally accepted accounting principles in the United States ( U.S. GAAP ) for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006. This translation is unaudited.
2. Significant differences between U.S. GAAP and generally accepted accounting principles in Japan ( Japanese GAAP ) are stated in the notes of Overview of Accounting Principles Utilized.

**Table of Contents****1. Information on the Company and its subsidiaries****(1) Consolidated Financial Highlights**

|   | Millions of yen                                  |  |   |
|---|--|--|---|
|   | The six months<br>ended<br>September 30,<br>2005 | The six months<br>ended<br>September 30,<br>2006 | The fiscal year<br>ended<br>March 31,<br>2006 |
| Total Revenues  | 447,729  | 558,529  | 941,872                                       |
| Income before Income Taxes, Minority Interests in Earnings of Subsidiaries,<br>Discontinued Operations and Extraordinary Gain | 132,754  | 151,334  | 250,816                                       |
| Net Income  | 83,954   | 91,326   | 166,388                                       |
| Shareholders' Equity  | 821,420  | 1,034,339  | 953,646                                       |
| Total Assets  | 6,333,055  | 7,633,915  | 7,242,455                                     |
| Shareholders' Equity Per Share (yen)  | 9,333.32   | 11,470.78  | 10,608.97                                     |
| Basic Earnings Per Share (yen)  | 957.87   | 1,014.29   | 1,883.89                                      |
| Diluted Earnings Per Share (yen)  | 907.93   | 977.73   | 1,790.30                                      |
| Shareholders' Equity Ratio (%)  | 12.97  | 13.55  | 13.17   |
| Cash Flows from Operating Activities  | 112,157  | 165,962  | 136,003                                       |
| Cash Flows from Investing Activities  | (182,787)  | (520,853)  | (799,357)                                     |
| Cash Flows from Financing Activities  | 102,172  | 252,904  | 762,528                                       |
| Cash and Cash Equivalents at End of Period  | 177,565  | 143,971  | 245,856                                       |
| Number of Employees   | 14,310   | 16,414   | 15,067  |

Note: 1. Consumption tax is excluded from the stated amount of total revenues.

2. As a result of the recording of Discontinued Operations in accordance with FASB Statement No.144 ( Accounting for impairment or Disposal of Long-lived Assets ), certain amounts in the six months ended September 30, 2005 and the fiscal year ended March 31, 2006 have been reclassified retroactively.

3. The depreciation costs of estimated residual values related to lease income associated with re-leasing, which had been excluded from Total Revenues were reclassified into expenses and costs of vehicle maintenance and management services, which had been excluded from Total Revenues were reclassified into expenses in the fiscal year ended March 31, 2006. As a result, Total Revenues for the six months ended September 30, 2005 has been reclassified retroactively.

4. Minority Interests in Earnings of Subsidiaries, net which had been excluded from Income before Income Taxes, Minority Interests in Earnings of Subsidiaries, Discontinued Operations and Extraordinary Gain was disclosed separately in the fiscal year ended March 31, 2006. As a result, Income before Income Taxes, Minority Interests in Earnings of Subsidiaries, Discontinued Operations and Extraordinary Gain for the six months ended September 30, 2005 has been reclassified retroactively.

**Table of Contents****(2) Overview of Activities**

For the six months ended September 30, 2006, no significant changes were made in the Company and its subsidiaries' operations. There were no changes in the activities of principal related companies.

**(3) Changes of Principal Related Companies**

Changes of principal related companies for the six months ended September 30, 2006 are as follows:

## Additions:

There were no additions during the six months ended September 30, 2006.

## Deletions:

There were no deletions during the six months ended September 30, 2006.

**(4) Number of Employees**

The following table shows the total number of employees in the Company and its subsidiaries by segment as of September 30, 2006:

| Segment name                  | Number of employees |
|-------------------------------|---------------------|
| Operations in Japan:          |                     |
| Corporate Financial Services  | 1,758               |
| Automobile Operations         | 1,930               |
| Rental Operations             | 924                 |
| Real Estate-Related Finance   | 735                 |
| Real Estate                   | 2,207               |
| Life Insurance                | 480                 |
| Other                         | 2,917               |
| <b>Subtotal</b>               | <b>10,951</b>       |
| Overseas Operations:          |                     |
| The Americas                  | 1,044               |
| Asia, Oceania and Europe      | 2,338               |
| <b>Subtotal</b>               | <b>3,382</b>        |
| Other administration sections | 2,081               |
| <b>Total</b>                  | <b>16,414</b>       |

**Table of Contents****2. Financial Results****(1) Six Months Ended September 30, 2006****Economic Environment**

The world economy, including the United States, Europe and Asia, has generally continued to recover and grow over the last six-month period. The U.S. economy showed signs of expansion, despite concerns regarding the decrease in residential investment towards the end of this period, supported by a steady corporate performance, as well as a slight increase in consumer spending. The European economy continued its trend in recovery backed by an expansion in capital investment and steady consumer spending. While the Chinese economy continued to achieve high growth, other countries across Asia also showed signs of economic improvement.

The Japanese economy continued to recover, despite the economic instability caused by the rise in oil prices, due to growth in private capital investments stemming from improvements in corporate earnings, as well as a recovery in employment trends.

**Financial Highlights**

|                                       |   |
|---------------------------------------|---|
| <b>Income Before Income Taxes (*)</b> | <b>(Y)151,334 million (Up 14% year on year)</b> |
| <b>Net Income</b>                     | <b>(Y)91,326 million (Up 9% year on year)</b>   |
| <b>Earnings Per Share (Basic)</b>     | <b>(Y)1,014.29 (Up 6% year on year)</b>         |
| <b>Earnings Per Share (Diluted)</b>   | <b>(Y)977.73 (Up 8% year on year)</b>           |
| <b>Shareholders' Equity Per Share</b> | <b>(Y)11,470.78 (Up 8% on March 31, 2006)</b>   |
| <b>ROE (annualized)</b>               | <b>18.4% (September 30, 2005: 21.7%)</b>        |
| <b>ROA (annualized)</b>               | <b>2.46% (September 30, 2005: 2.71%)</b>        |

(\*) Income before Income Taxes refers to Income before Income Taxes, Minority Interests in Earnings of Subsidiaries, Discontinued Operations and Extraordinary Gain.

**Revenues: (Y)558,529 million (Up 25% year on year)**

Revenues increased 25% to (Y)558,529 million in the first half of this fiscal year compared with the same period of the previous fiscal year. Although brokerage commissions and net gains on investment securities and life insurance premiums and related investment income decreased year on year, revenues from direct financing leases, operating leases, interest on loans and investment securities, real estate sales, gains on sale of real estate under operating leases, and other operating revenues were up compared to the same period of the previous fiscal year.

Revenues from direct financing leases slightly increased to (Y)48,009 million compared with the same period of the previous fiscal year. In Japan, revenues from direct financing leases were down 9% to (Y)32,075 million compared to (Y)35,297 million in the same period of the previous fiscal year due to the lower level of operating assets and a decrease in revenues from securitization. Overseas, revenues were up 28% to (Y)15,934 million compared to (Y)12,458 million in the same period of the previous fiscal year due to the expansion of leasing operations in the Asia, Oceania and Europe segment, and the effect of a depreciation of the yen against the dollar.

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Revenues from operating leases increased 17% to (Y)124,984 million compared to the same period of the previous fiscal year. In Japan, there was an expansion of automobile and real estate operating leases, as well as an increase in revenues from the precision measuring and other equipment rental operations, that resulted in a 16% increase to (Y)95,223 million compared to (Y)82,171 million in the same period of the previous fiscal year. Overseas, revenues were up 20% to (Y)29,761 million compared to (Y)24,712 million in the same period of the previous fiscal year due to the expansion of automobile operating leases in the Asia, Oceania and Europe segment.

Revenues from interest on loans and investment securities increased 24% to (Y)95,611 million compared to the same period of the previous fiscal year. In Japan, interest on loans and investment securities increased 16% to (Y)71,828 million compared to (Y)61,857 million in the same period of the previous fiscal year due primarily to an expansion of revenues including non-recourse loans and loans to corporate customers. Overseas, revenues were up 58% to (Y)23,783 million compared to (Y)15,025 million in the same period of the previous fiscal year due to an expansion of revenues associated with loans to corporate customers in The Americas segment, as well as contributions from interest on investment securities.

Revenues from brokerage commissions and net gains on investment securities decreased 9% to (Y)18,534 million compared to the same period of the previous fiscal year. Brokerage commissions were up 12% year on year due to the increase of stock trading value compared to the same period of the previous fiscal year, while the stock market was still in the adjustment phase in Japan. Although there were contributions from revenues of the venture capital operations in Japan and securities investments in The Americas segment, net gains on investment securities were down 13% year on year due to the decrease in net gains on investment securities in Japan.

Life insurance premiums and related investment income were down 7% year on year to (Y)63,767 million. Life insurance premiums were down year on year, while life insurance related investment income also decreased year on year.

Real estate sales more than doubled year on year to (Y)67,895 million due to an increase in the number of condominiums sold to buyers from 844 units in the first half of the previous fiscal year to 1,702 units in the first half of this fiscal year.

Gains on sales of real estate under operating leases increased 29% year on year to (Y)12,170 million due to an increase in sales of office buildings and other real estate under operating leases.

Other operating revenues increased 47% year on year to (Y)127,559 million. In Japan, revenues were up 21% to (Y)101,749 million compared to (Y)84,221 million in the same period of the previous fiscal year due to the increases in revenues associated with the automobile maintenance service operations, and our real estate management operations, including hotels, training facilities and golf courses, as well as contribution from the beginning of the first quarter of this fiscal year of companies which we invested in the previous fiscal year, in addition to contributions of servicing fees from our loan servicing operations. Overseas, revenues increased more than 11 times to (Y)25,810 million compared to (Y)2,281 million in the same period of the previous fiscal year due to the contribution from the beginning of the first quarter of this fiscal year of the investment bank Houlihan Lokey Howard & Zukin (Houlihan Lokey) that entered the ORIX Group in the fourth quarter of the previous fiscal year and is included in The Americas segment.



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**Expenses: (Y)423,368 million (Up 27% year on year)**

Expenses increased 27% to (Y)423,368 million compared with the same period of the previous fiscal year. Although life insurance costs, provision for doubtful receivables and probable loan losses, and write-downs of securities were down year on year, interest expense, costs of operating leases, costs of real estate sales, other operating expenses, selling, general and administrative expenses, and write-downs of long-lived assets increased year on year.

Interest expense was up 32% year on year to (Y)39,057 million. In Japan, interest expense increased 19% year on year due to the higher average debt levels. Overseas, interest expense increased 52% year on year due to the higher average debt levels and higher interest rates.

Costs of operating leases were up 16% year on year to (Y)77,283 million accompanying the increase in the average balance of investment in operating leases.

Life insurance costs decreased slightly year on year to (Y)57,436 million.

Costs of real estate sales were up 98% year on year to (Y)55,006 million along with the increase in real estate sales.

Other operating expenses were up 19% year on year to (Y)67,199 million accompanying the increase in other operating revenues.

Selling, general and administrative expenses were up 42% year on year to (Y)119,973 million due to an increase in personnel and related expenses associated with Houlihan Lokey, which entered the ORIX Group in the fourth quarter of the previous fiscal year, as well as an increase in the number of employees in the Corporate Financial Services and Automobile Operations segments in an effort to expand our sales platform in Japan.

Provision for doubtful receivables and probable loan losses was down 46% year on year to (Y)3,720 million due to a lower occurrence of new non-performing assets despite an increase in operating assets, and due to some reversals of the provision for doubtful receivables and probable loan losses.

Write-downs of long-lived assets increased year on year to (Y)1,318 million.

Write-downs of securities were down 20% year on year to (Y)2,142 million.

**Net Income: (Y)91,326 million (Up 9% year on year)**

Operating income was up 17% year on year to (Y)135,161 million, due to the reasons noted above.

Equity in net income of affiliates was down 4% to (Y)15,017 million compared to the same period of the previous fiscal year due to a decrease in profits from equity method affiliates overseas, despite an increase in profits from equity method affiliates in Japan.

Gains on sales of subsidiaries and affiliates and liquidation loss were down 36% year on year to (Y)1,156 million.

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As a result, income before income taxes, minority interests in earnings of subsidiaries, discontinued operations and extraordinary gain increased 14% year on year to (Y)151,334 million.

Minority interests in earnings of subsidiaries, net increased 79% year on year to (Y)1,747 million as a result of the minority interests in earnings of Houlihan Lokey that entered the ORIX Group for a portion of the fourth quarter of the previous fiscal year.

Income from continuing operations increased 13% year on year to (Y)87,528 million.

Discontinued operations (refer to (Note) below), net of applicable tax effect decreased 49% year on year to (Y)3,225 million.

As a result, net income increased 9% year on year to (Y)91,326 million.

(Note) Subsidiaries, business units, and certain rental properties sold or to be disposed of by sale without significant continuing involvements are reported under discontinued operations and the related amounts that had been previously reported have been reclassified retroactively.

### **Operating Assets: (Y)6,319,087 million (Up 8% on March 31, 2006)**

Operating assets were up 8% from March 31, 2006 to (Y)6,319,087 million. While investment in direct financing leases was down from March 31, 2006, installment loans, investment in operating leases, investment in securities, and other operating assets were up.

### **Segment Information ( Segment Profits refer to income before income taxes)**

Segment profits for the Automobile Operations segment was almost flat year on year; declined for the Rental Operations, Life Insurance, and Asia, Oceania and Europe segments; and increased for the Corporate Financial Services, Real Estate-Related Finance, Real Estate, Other, and The Americas segments compared to the same period of the previous fiscal year.

### **Operations in Japan**

#### **Corporate Financial Services Segment:**

Segment revenues were up 19% year on year to (Y)57,945 million due mainly to the expansion of loans to corporate customers.

Although selling, general and administrative expenses increased as a result of upfront costs associated with an increase in the number of employees in an effort to expand our sale and marketing base, segment profits increased 21% to (Y)28,734 million compared to (Y)23,824 million in the same period of the previous fiscal year due to an increase in segment revenues and the lower provision for doubtful receivables and probable loan losses.

Segment assets increased 11% on March 31, 2006 to (Y)1,799,827 million due mainly to an increase in loans to corporate customers.

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### **Automobile Operations Segment:**

Segment revenues increased 13% year on year to (Y)72,016 million with the increase in revenues from operating leases and maintenance services in the automobile leasing operations, as well as the steady performance of the automobile rental operations.

Segment profits were flat year on year at (Y)13,386 million. Expenses increased along with the increase in revenues from operating leases and maintenance services and due to an increase in selling, general and administrative expenses associated with an increase in the number of employees in an effort to develop our customer base focusing on increasing our automobile-related business to individuals.

Segment assets increased 8% on March 31, 2006 to (Y)548,513 million due to the expansion of the automobile leasing operations that also include operating leases.

### **Rental Operations Segment:**

Segment revenues were down 4% year on year to (Y)32,412 million due to the recognition of losses on the sale of investment securities, although revenues from operating leases including precision measuring and other equipment rentals expanded year on year.

Segment profits decreased 26% to (Y)3,897 million compared to (Y)5,292 million in the same period of the previous fiscal year accompanying the decrease in segment revenues.

Segment assets were up slightly on March 31, 2006 to (Y)124,363 million.

### **Real Estate-Related Finance Segment:**

Segment revenues increased 10% year on year to (Y)38,222 million due to an expansion of revenues associated with corporate loans, including non-recourse loans, and contributions from the gains on sales of real estate under operating leases.

Although net gains on investment securities decreased compared to the same period of the previous fiscal year, segment profits increased 3% to (Y)21,021 million compared to (Y)20,318 million in the same period of the previous fiscal year due to contributions from the loan servicing operations and gains on sales of real estate under operating leases.

Segment assets increased 9% on March 31, 2006 to (Y)1,328,367 million due mainly to an increase in loans to corporate customers.

### **Real Estate Segment:**

Segment revenues increased 45% year on year to (Y)142,129 million as more condominiums were sold to buyers in the first half of this fiscal year compared with the same period of the previous fiscal year, and due to the increase in revenues associated with the real estate management operations, including office rental activities, in addition to contributions from the gains on sales of real estate under operating leases.

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Segment profits increased 51% to (Y)31,129 million compared to (Y)20,562 million in the same period of the previous fiscal year in line with the increase in segment revenues.

Segment assets increased 13% on March 31, 2006 to (Y)768,622 million due mainly to the expansion of operating assets, including investment in operating leases.

### **Life Insurance Segment:**

Segment revenues were down 7% year on year to (Y)63,488 million as a result of a decrease in life insurance related investment income, while revenues from life insurance premiums were also down compared to the same period of the previous fiscal year.

Segment profits decreased 56% year on year to (Y)3,379 million compared to (Y)7,753 million in the same period of the previous fiscal year due to lower segment revenues.

Segment assets increased 3% on March 31, 2006 to (Y)508,409 million.

### **Other Segment:**

Segment revenues increased 14% year on year to (Y)56,928 million due to an increase in gains on investment securities at the venture capital operations, revenues associated with the securities operations and the steady trend in revenues at the card loan operations.

Segment profits increased 18% to (Y)19,232 million compared to (Y)16,259 million in the same period of the previous fiscal year. While gains on sales of subsidiaries and affiliates decreased year on year, the higher segment revenues and contributions from equity in net income of affiliates led to the higher segment profits.

Segment assets increased 5% on March 31, 2006 to (Y)699,105 million.

## **Overseas Operations**

### **The Americas Segment:**

Segment revenues more than doubled year on year to (Y)56,360 million due to the contribution from the beginning of the first quarter of this fiscal year of Houlihan Lokey that entered the ORIX Group in the fourth quarter of the previous fiscal year, and the increase in revenues associated with corporate loans as well as gains on investment securities and interest on investment securities.

Segment profits increased 27% to (Y)17,922 million compared to (Y)14,070 million in the same period of the previous fiscal year. While the sales of real estate under operating leases and equity in net income of affiliates decreased year on year, the higher segment revenues led to the higher segment profits.

Segment assets increased 7% on March 31, 2006 to (Y)470,165 million due mainly to an increase in corporate loans.

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**Asia, Oceania and Europe Segment:**

Segment revenues were up 8% year on year to (Y)47,222 million due to the steady performance of the leasing operations, such as automobile leasing that include operating leases.

Segment profits decreased 9% to (Y)17,926 million compared to (Y)19,747 million in the same period of the previous fiscal year as expenses increased along with the increase in segment revenues, and due to decreases in gains on sales of subsidiaries and affiliates.

Segment assets were up 11% on March 31, 2006 to (Y)624,898 million due mainly to an increase in direct financing leases and investment in affiliates.

**(2) Summary of Cash Flows**

Cash and cash equivalents decreased by (Y)101,885 million to (Y)143,971 million compared to March 31, 2006.

Cash flows from operating activities provided (Y)165,962 million in the first half of this fiscal year, compared to (Y)112,157 million in the same period of the previous fiscal year. There were inflows associated with an increase in the net income and decrease in restricted cash, while there was an outflow from increase in inventories, which is associated with the residential condominium development operations.

Cash flows from investing activities used (Y)520,853 million in the first half of this fiscal year, compared to (Y)182,787 million in the same period of the previous fiscal year, due mainly to the increase in outflows associated with the increase in installment loans made to customers as a result of the expansion of loans to corporate customers, including non-recourse loans.

Cash flows from financing activities provided (Y)252,904 million in the first half of this fiscal year, compared to (Y)102,172 million in the same period of the previous fiscal year, due to the increase in debt accompanying the increase in operating assets.

(Note) Consumption tax is excluded from the stated amount for revenues as described above.

**Table of Contents****3. Operating Results****(1) Earnings Summary**

Total revenues and profit (loss) by segment for the six months ended September 30, 2006 are as follows:

|   | Total<br>revenues | Millions of yen        |                   |                        |
|---|-------------------|------------------------|-------------------|------------------------|
|   |                   | Year-on-Year<br>Change | Segment<br>profit | Year-on-Year<br>Change |
| <b>Operations in Japan:</b>                                       |                   |                        |                   |                        |
| Corporate Financial Services                                      | 57,945            | 118.9%                 | 28,734            | 120.6%                 |
| Automobile Operations   | 72,016            | 112.8                  | 13,386            | 99.7                   |
| Rental Operations   | 32,412            | 96.4                   | 3,897             | 73.6                   |
| Real Estate-Related Finance                                       | 38,222            | 109.6                  | 21,021            | 103.5                  |
| Real Estate   | 142,129           | 145.0                  | 31,129            | 151.4                  |
| Life Insurance  | 63,488            | 93.1                   | 3,379             | 43.6                   |
| Other   | 56,928            | 114.0                  | 19,232            | 118.3                  |
| Subtotal  | 463,140           | 116.6                  | 120,778           | 112.4                  |
| <b>Overseas Operations:</b>                                       |                   |                        |                   |                        |
| The Americas  | 56,360            | 212.7                  | 17,922            | 127.4                  |
| Asia, Oceania and Europe  | 47,222            | 107.7                  | 17,926            | 90.8                   |
| Subtotal  | 103,582           | 147.3                  | 35,848            | 106.0                  |
| <b>Difference between Segment Totals and Consolidated Amounts</b> | (8,193)           | 41.3                   | (5,292)           | 62.3                   |
| <b>Consolidated Amounts</b>                                       | 558,529           | 124.7%                 | 151,334           | 114.0%                 |

**Table of Contents****(2) New Business Volumes**

New business volumes of direct financing leases, installment loans, operating leases, investment in securities, other operating assets for the six months ended September 30, 2006 are as follows:

|                                      | Millions of yen | Year-on-Year<br>Change |
|--------------------------------------|-----------------|------------------------|
| <b>Direct Financing Leases:</b>      |                 |                        |
| New receivables added                | 394,296         | 94.9%                  |
| New equipment acquisitions           | 351,249         | 95.2                   |
| <b>Installment Loans:</b>            |                 |                        |
| New loans added                      | 1,089,342       | 139.0                  |
| <b>Operating Leases:</b>             |                 |                        |
| New equipment acquisitions           | 170,646         | 152.5                  |
| <b>Investment in Securities:</b>     |                 |                        |
| New securities added                 | 116,035         | 103.9                  |
| <b>Other Operating Transactions:</b> |                 |                        |
| New assets added                     | 121,919         | 219.4                  |

**(3) Operating Assets**

Operating assets by segment at September 30, 2006 are as follows:

|   | Millions of<br>yen | Composition<br>ratio | Year-on-Year<br>Change |
|---|--------------------|----------------------|------------------------|
| <b>Operations in Japan:</b>                                       |                    |                      |                        |
| Corporate Financial Services                                      | 1,799,827          | 23.6%                | 112.3%                 |
| Automobile Operations   | 548,513            | 7.2                  | 112.1                  |
| Rental Operations   | 124,363            | 1.6                  | 106.3                  |
| Real Estate-Related Finance                                       | 1,328,367          | 17.4                 | 138.2                  |
| Real Estate   | 768,622            | 10.1                 | 147.6                  |
| Life Insurance  | 508,409            | 6.7                  | 97.6                   |
| Other   | 699,105            | 9.1                  | 134.5                  |
| Subtotal  | 5,777,206          | 75.7                 | 122.1                  |
| <b>Overseas Operations:</b>                                       |                    |                      |                        |
| The Americas  | 470,165            | 6.1                  | 117.9                  |
| Asia, Oceania and Europe  | 624,898            | 8.2                  | 118.5                  |
| Subtotal  | 1,095,063          | 14.3                 | 118.2                  |
| <b>Difference between Segment Totals and Consolidated Amounts</b> | 761,646            | 10.0                 | 112.8                  |
| <b>Consolidated Amounts</b>                                       | 7,633,915          | 100.0%               | 120.5%                 |

**Table of Contents****4. Overview of Facilities****(1) Facilities for Rent**

## (a) New equipment acquisitions

In association with the operating lease business, the Company and its subsidiaries own facilities for rent. New equipment acquisitions were (Y)170,646 million for the six months ended September 30, 2006.

## (b) Details of facilities for rent

Details of facilities for rent at September 30, 2006 are as follows:

|  | Millions of yen | Composition ratio |
|--|-----------------|-------------------|
| Transportation equipment                   | 479,145         | 44.9%             |
| Measuring equipment and personal computers | 162,828         | 15.3              |
| Real estate and other                      | 425,409         | 39.8              |
| Subtotal                                   | 1,067,382       | 100.0%            |
| Accumulated depreciation                   | (298,361)       |                   |
| Net  | 769,021         |                   |

(Note) Investment in Operating Leases in the consolidated balance sheets includes rental receivables of (Y)17,673 million at September 30, 2006.

For the six months ended September 30, 2006, the Company and its subsidiaries wrote down certain facilities for rent to their fair value under the provisions of FASB Statement No. 144 ( Accounting for the Impairment or Disposal of Long-Lived Assets ). For further information on the write-downs, see Note 15 write-downs of long-lived assets.

## (c) Plans for acquisition and disposal of facilities

For the six months ended September 30, 2006, there were not any significant changes in acquisition and disposal of facilities.

**(2) Office Facilities and Facilities for Operation Other than for Rent**

## (a) Overview of facilities not for rent

The Company and its subsidiaries own the following facilities:

Head-office buildings

Facilities for welfare and streamlining clerical work

Golf courses

Training facility

## (b) Status of main facilities not for rent

## i) The company



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For the six months ended September 30, 2006, there were not any significant changes of major facilities.

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## ii) Subsidiaries in Japan

The reclassification to the operating assets in relation to full-fledged operation of the facility.

|                       | Companies name                                | Facilities name<br>(location)                                      | Segment category         | Description of facilities   | Carrying value (millions of yen) |                         |                                 | Total | Number of employees |
|-----------------------|---|--|--------------------------|-----------------------------|----------------------------------|-------------------------|---------------------------------|-------|---------------------|
|                       |   |  |                          |                             | Buildings and fixtures           | Machinery and equipment | Estate (thousand square meters) |       |                     |
| Subsidiaries in Japan | ORIX Resource Recycling Servicing Corporation | Sai-no-Kuni Resource Recovery Plant (Yorii-cho Osato-gun, Saitama) | Other segment categories | Waste Management Facilities | 4,589                            | 13,157                  | ( ) 17,746                      | 8     |                     |

## iii) Overseas subsidiaries

For the six months ended September 30, 2006, there were not any significant changes of major facilities.

## (c) Plans for acquisition and disposal of facilities not for rent

There were no significant plans for acquisition or disposal of facilities not for rent.

**5. Company Stock Information**

## (1) Information of Outstanding Shares, Common Stock and Additional Paid-in Capital

The information of the number of outstanding shares, the amount of common stock and additional paid-in capital for the six months ended September 30, 2006 is as follows:

| In thousands  |                              |               | Millions of yen    |               |                            |  |
|---------------|------------------------------|---------------|--------------------|---------------|----------------------------|--|
| Increase, net | Number of outstanding shares |               | Common stock       |               | Additional paid-in capital |  |
|               | September 30, 2006           | Increase, net | September 30, 2006 | Increase, net | September 30, 2006         |  |
| 208           | 90,497                       | 1,246         | 89,705             | 1,246         | 106,669                    |  |

Note: Additional paid-in capital represented as shown above is based on Japanese GAAP.

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## (2) List of Major Shareholders

The following is a list of major shareholders as of September 30, 2006:

| Name  | Number of<br>shares held | Percentage of<br>total shares<br>issued |
|---|--------------------------|---|
| Address   | (in thousands)           |   |
| Japan Trustee Services Bank, Ltd. (Trust Account)                   |                          |   |
| 1-8-11, Harumi, Chuo-ku, Tokyo                                      | 8,690                    | 9.60%                                   |
| State Street Bank and Trust Company                                 |                          |   |
| P.O.BOX 351 Boston, MA 02101 U.S.A.                                 | 6,210                    | 6.86                                    |
| The Master Trust Bank of Japan, Ltd. (Trust Account)                |                          |   |
| 2-11-3, Hamamatsu-cho, Minato-ku, Tokyo                             | 5,965                    | 6.59                                    |
| State Street Bank and Trust Company 505103                          |                          |   |
| P.O.BOX 351 Boston, MA 02101 U.S.A.                                 | 2,928                    | 3.24                                    |
| The Chase Manhattan Bank 385036                                     |                          |   |
| 360 N. Crescent Drive Beverly Hills, CA 90210 U.S.A.                | 2,814                    | 3.11                                    |
| The Chase Manhattan Bank, N.A. London                               |                          |   |
| Woolgate House, Coleman Street London EC2P 2HD, England             | 2,436                    | 2.69                                    |
| Mellon Bank, N.A. As Agent For Its Client Mellon Omnibus US Pension |                          |   |
| One Boston Place Boston, MA 02108 U.S.A.                            | 2,078                    | 2.30                                    |
| The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account  |                          |   |
| Woolgate House, Coleman Street London EC2P 2HD, England             | 1,878                    | 2.08                                    |
| NATS CUMCO  |                          |   |
| 111 Wall Street New York, New York 10043 U.S.A.                     | 1,580                    | 1.75                                    |
| JPMCB USA Residents Pension Jasdec Lend                             |                          |   |
| 270 Park Avenue, New York, NY 10017 U.S.A.                          | 1,456                    | 1.61                                    |
| <b>Total</b>  | <b>36,039</b>            | <b>39.82%</b>                           |

## Notes:

- (a) The number of shares held in relation to a trust business may not be all inclusive and therefore is reported with reference to the names listed as shareholders.
- (b) NATS CUMCO is the nominee name of the depositary bank, Citibank, N.A. of Japan, for the aggregate of Citibank's American Depositary Receipts (ADRS) holders.
- (c)

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Alliance Bernstein L.P., AXA Investment Managers Paris SA, AXA Rosenberg Investment Management Ltd., Alliance Bernstein Japan Ltd., jointly filed an amended report as required under Japanese regulations on August 1, 2006 that shows their share holdings of the Company as of July 20, 2006. The following information is not included in the list of major shareholders as of September 30, 2006 because it could not be confirmed substantially from the list of shareholders as of September 30, 2006.

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| Name                                     | Number of<br>shares held<br><br>(in thousands) | Percentage of<br>total shares<br><br>in issued |
|--|--|--|
| Alliance Bernstein L.P.                  | 9,625  | 10.65%   |
| AXA Investment Managers Paris SA         | 5  | 0.01   |
| AXA Rosenberg Investment Management Ltd. | 10   | 0.01   |
| Alliance Bernstein Japan Ltd.            | 185  | 0.20   |
| <b>Total</b>                             | <b>9,826</b>                                   | <b>10.87%</b>                                  |

- (d) Barclays Global Investors Japan Trust and Banking Co., Ltd., Barclays Global Investors Japan Ltd., Barclays Global Investors, N.A., Barclays Global Fund Advisors, Barclays Global Investors Australia Ltd, Barclays Global Investors Ltd, Barclays Life Assurance Company Ltd, Barclays Bank PLC Ltd, Barclays Capital Securities Ltd, Barclays Capital Japan, Barclays Capital Inc, Barclays Global Investors Canada Ltd jointly filed an amended report as required under Japanese regulations on October 11, 2006 that shows their share holdings of the Company as of September 30, 2006. The following information is not included in the list of major shareholders as of September 30, 2006 because it could not be confirmed substantially from the list of shareholders as of September 30, 2006.

| Name  | Number of<br>shares held<br><br>(in thousands) | Percentage of<br>total shares<br><br>in issued |
|---|--|--|
| Barclays Global Investors Japan Trust and Banking Co., Ltd. | 123  | 0.14%  |
| Barclays Global Investors Japan Ltd.                        | 1,714  | 1.89   |
| Barclays Global Investors, N.A.                             | 1,432  | 1.58   |
| Barclays Global Fund Advisors                               | 662  | 0.73   |
| Barclays Global Investors Australia Ltd                     | 66   | 0.07   |
| Barclays Global Investors Ltd                               | 862  | 0.95   |
| Barclays Life Assurance Company Ltd                         | 12   | 0.01   |
| Barclays Bank PLC Ltd                                       | 89   | 0.10   |
| Barclays Capital Japan                                      | 517  | 0.57   |
| Barclays Capital Securities Co., Ltd.                       | 0  | 0.00   |
| Barclays Capital Inc  | 395  | 0.44   |
| Barclays Global Investors Canada Ltd                        | 6  | 0.01   |
| <b>Total</b>  | <b>5,882</b>                                   | <b>6.50%</b>                                   |

**Table of Contents****6. Others**

In December 2002, a consortium including ORIX purchased from Korea Deposit Insurance Corporation ( KDIC ) shares of Korea Life Insurance Co., Ltd., a Korean life insurance company. On July 28, 2006, KDIC initiated an arbitration proceeding with the International Chamber of Commerce against the consortium, including ORIX, seeking to rescind the sale and other relief.

KDIC s claims are based on certain facts regarding the bidding process, and those facts were previously among the allegations in a legal proceeding in Korea to which ORIX was not a party. However, the three levels of courts in Korea, including the Supreme Court (the highest court in Korea), did not find that such facts had been established.

**7. Financial Information****(1) Condensed Consolidated Balance Sheets (Unaudited)**

|  | September 30, 2005 |                   | September 30, 2006 |                   | March 31, 2006   |                   |
|--|--------------------|-------------------|--------------------|-------------------|------------------|-------------------|
|  | Millions of yen    | Composition ratio | Millions of yen    | Composition ratio | Millions of yen  | Composition ratio |
| <b>Assets</b>  |                    |                   |                    |                   |                  |                   |
| Cash and Cash Equivalents  | 177,565            | 2.8%              | 143,971            | 1.9%              | 245,856          | 3.4%              |
| Restricted Cash  | 69,645             | 1.1               | 108,377            | 1.4               | 172,805          | 2.4               |
| Time Deposits  | 5,814              | 0.1               | 453                | 0.0               | 5,601            | 0.1               |
| Investment in Direct Financing Leases  | 1,462,354          | 23.1              | 1,433,591          | 18.8              | 1,437,491        | 19.8              |
| Installment Loans  | 2,491,927          | 39.3              | 3,252,274          | 42.6              | 2,926,036        | 40.4              |
| Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses | (103,028)          | (1.6)             | (89,824)           | (1.2)             | (97,002)         | (1.3)             |
| Investment in Operating Leases   | 591,056            | 9.3               | 786,694            | 10.3              | 720,096          | 9.9               |
| Investment in Securities   | 618,688            | 9.8               | 711,127            | 9.3               | 682,798          | 9.4               |
| Other Operating Assets   | 98,740             | 1.6               | 135,401            | 1.8               | 91,856           | 1.3               |
| Investment in Affiliates   | 302,306            | 4.8               | 344,937            | 4.5               | 316,773          | 4.4               |
| Other Receivables  | 142,895            | 2.3               | 180,424            | 2.4               | 165,657          | 2.3               |
| Inventories  | 115,058            | 1.8               | 158,181            | 2.1               | 140,549          | 1.9               |
| Prepaid Expenses   | 50,434             | 0.8               | 46,496             | 0.6               | 40,676           | 0.6               |
| Office Facilities  | 95,106             | 1.5               | 89,814             | 1.2               | 91,797           | 1.3               |
| Other Assets   | 214,495            | 3.3               | 331,999            | 4.3               | 301,466          | 4.1               |
| <b>Total Assets</b>  | <b>6,333,055</b>   | <b>100.0%</b>     | <b>7,633,915</b>   | <b>100.0%</b>     | <b>7,242,455</b> | <b>100.0%</b>     |

**Table of Contents****(1) Condensed Consolidated Balance Sheets (Unaudited) (Continued)**

| Liabilities and Shareholders Equity                 | September 30, 2005 |                   | September 30, 2006 |                   | March 31, 2006   |                   |
|---|--------------------|-------------------|--------------------|-------------------|------------------|-------------------|
|   | Millions of yen    | Composition ratio | Millions of yen    | Composition ratio | Millions of yen  | Composition ratio |
| Short-Term Debt                                     | 955,048            | 15.1%             | 1,267,616          | 16.6%             | 1,336,414        | 18.5%             |
| Deposits  | 354,191            | 5.6               | 349,346            | 4.6               | 353,284          | 4.9               |
| Trade Notes, Accounts Payable and Other Liabilities | 293,963            | 4.7               | 359,515            | 4.7               | 334,008          | 4.6               |
| Accrued Expenses                                    | 87,782             | 1.4               | 87,509             | 1.1               | 89,043           | 1.2               |
| Policy Liabilities                                  | 519,849            | 8.2               | 494,866            | 6.5               | 503,708          | 7.0               |
| Current and Deferred Income Taxes                   | 204,242            | 3.2               | 269,180            | 3.5               | 250,997          | 3.4               |
| Security Deposits                                   | 122,416            | 1.9               | 158,778            | 2.1               | 150,836          | 2.1               |
| Long-Term Debt                                      | 2,960,489          | 46.7              | 3,576,801          | 46.9              | 3,236,055        | 44.7              |
| <b>Total Liabilities</b>                            | <b>5,497,980</b>   | <b>86.8</b>       | <b>6,563,611</b>   | <b>86.0</b>       | <b>6,254,345</b> | <b>86.4</b>       |
| <b>Minority Interests</b>                           | <b>13,655</b>      | <b>0.2</b>        | <b>35,965</b>      | <b>0.5</b>        | <b>34,464</b>    | <b>0.4</b>        |
| Common Stock  | 76,520             | 1.2               | 89,705             | 1.2               | 88,458           | 1.2               |
| Additional Paid-in Capital                          | 94,602             | 1.5               | 110,098            | 1.4               | 106,729          | 1.5               |
| Retained Earnings:                                  |                    |                   |                    |                   |                  |                   |
| Legal Reserve                                       | 2,220              | 0.0               | 2,220              | 0.0               | 2,220            | 0.0               |
| Retained Earnings                                   | 650,952            | 10.3              | 816,620            | 10.7              | 733,386          | 10.2              |
| Subtotal  | 653,172            | 10.3              | 818,840            | 10.7              | 735,606          | 10.2              |
| Accumulated Other Comprehensive Income:             |                    |                   |                    |                   |                  |                   |
| Net Unrealized Gains on Investment in Securities    | 37,219             | 0.6               | 42,995             | 0.5               | 50,856           | 0.7               |
| Minimum Pension Liability Adjustments               | (1,146)            | (0.0)             | (614)              | (0.0)             | (632)            | (0.0)             |
| Foreign Currency Translation Adjustments            | (31,904)           | (0.5)             | (24,975)           | (0.3)             | (26,132)         | (0.3)             |
| Net Unrealized Gains on Derivative Instruments      | 345                | 0.0               | 2,088              | 0.0               | 3,511            | 0.0               |
| Subtotal  | 4,514              | 0.1               | 19,494             | 0.2               | 27,603           | 0.4               |
| Treasury Stock, at Cost                             | (7,388)            | (0.1)             | (3,798)            | 0.0               | (4,750)          | (0.1)             |
| <b>Total Shareholders Equity</b>                    | <b>821,420</b>     | <b>13.0</b>       | <b>1,034,339</b>   | <b>13.5</b>       | <b>953,646</b>   | <b>13.2</b>       |
| <b>Total Liabilities and Shareholders Equity</b>    | <b>6,333,055</b>   | <b>100.0%</b>     | <b>7,633,915</b>   | <b>100.0%</b>     | <b>7,242,455</b> | <b>100.0%</b>     |

**Table of Contents****(2) Condensed Consolidated Statements of Income (Unaudited)**

|  | The six months ended<br>September 30, 2005 |               | The six months ended<br>September 30, 2006 |               | The fiscal year ended<br>March 31, 2006 |               |
|--|--|---------------|--|---------------|---|---------------|
|  | Millions of                                |               | Millions of                                |               | Millions of                             |               |
|  | yen  | Percentage    | yen  | Percentage    | yen                                     | Percentage    |
| <b>Revenues:</b>   |  |               |  |               |   |               |
| Direct Financing Leases  | 47,755                                     |               | 48,009                                     |               | 98,645                                  |               |
| Operating Leases   | 106,883                                    |               | 124,984                                    |               | 211,838                                 |               |
| Interest on Loans and Investment Securities  | 76,882                                     |               | 95,611                                     |               | 161,350                                 |               |
| Brokerage Commissions and Net Gains on Investment Securities   | 20,416                                     |               | 18,534                                     |               | 48,826                                  |               |
| Life Insurance Premiums and Related Investment Income  | 68,470                                     |               | 63,767                                     |               | 138,118                                 |               |
| Real Estate Sales  | 31,376                                     |               | 67,895                                     |               | 74,943                                  |               |
| Gains on Sales of Real Estate under Operating Leases   | 9,445                                      |               | 12,170                                     |               | 8,970                                   |               |
| Other Operating Revenues   | 86,502                                     |               | 127,559                                    |               | 199,182                                 |               |
| <b>Total Revenues</b>  | <b>447,729</b>                             | <b>100.0%</b> | <b>558,529</b>                             | <b>100.0%</b> | <b>941,872</b>                          | <b>100.0%</b> |
| <b>Expenses:</b>   |  |               |  |               |   |               |
| Interest Expense   | 29,527                                     |               | 39,057                                     |               | 62,213                                  |               |
| Costs of Operating Leases  | 66,357                                     |               | 77,283                                     |               | 134,982                                 |               |
| Life Insurance Costs   | 58,239                                     |               | 57,436                                     |               | 117,622                                 |               |
| Costs of Real Estate Sales   | 27,765                                     |               | 55,006                                     |               | 65,904                                  |               |
| Other Operating Expenses   | 56,463                                     |               | 67,199                                     |               | 128,188                                 |               |
| Selling, General and Administrative Expenses   | 84,553                                     |               | 119,973                                    |               | 187,818                                 |               |
| Provision for Doubtful Receivables and Probable Loan Losses  | 6,848                                      |               | 3,720                                      |               | 16,477                                  |               |
| Write-downs of Long-Lived Assets   | 521  |               | 1,318                                      |               | 8,336                                   |               |
| Write-downs of Securities  | 2,668                                      |               | 2,142                                      |               | 4,540                                   |               |
| Foreign Currency Transaction Loss (Gain), Net  | (559)                                      |               | 234  |               | (212)                                   |               |
| <b>Total Expenses</b>  | <b>332,382</b>                             | <b>74.2</b>   | <b>423,368</b>                             | <b>75.8</b>   | <b>725,868</b>                          | <b>77.1</b>   |
| <b>Operating Income</b>  | <b>115,347</b>                             | <b>25.8</b>   | <b>135,161</b>                             | <b>24.2</b>   | <b>216,004</b>                          | <b>22.9</b>   |
| Equity in Net Income of Affiliates   | 15,607                                     | 3.5           | 15,017                                     | 2.7           | 32,080                                  | 3.4           |
| Gains on Sales of Subsidiaries and Affiliates and Liquidation Losses   | 1,800                                      | 0.4           | 1,156                                      | 0.2           | 2,732                                   | 0.3           |
| Income before Income Taxes, Minority Interests in Earnings of Subsidiaries, Discontinued Operations and Extraordinary Gain | 132,754                                    | 29.7          | 151,334                                    | 27.1          | 250,816                                 | 26.6          |
| Provision for Income Taxes   | 54,098                                     | 12.1          | 62,059                                     | 11.1          | 97,188                                  | 10.3          |
| Income before Minority Interests in Earnings of Subsidiaries, Discontinued Operations and Extraordinary Gain               | 78,656                                     | 17.6          | 89,275                                     | 16.0          | 153,628                                 | 16.3          |
| Minority Interests in Earnings of Subsidiaries, Net  | 975  | 0.2           | 1,747                                      | 0.3           | 3,245                                   | 0.3           |
| Income from Continuing Operations  | 77,681                                     | 17.4          | 87,528                                     | 15.7          | 150,383                                 | 16.0          |



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| <b>Discontinued Operations:</b>                       |               |             |               |             |                |             |
|---|---------------|-------------|---------------|-------------|----------------|-------------|
| Income from Discontinued Operations, Net              | 10,515        |             | 5,510         |             | 26,328         |             |
| Provision for Income Taxes                            | (4,242)       |             | (2,285)       |             | (10,323)       |             |
| Discontinued Operations, Net of Applicable Tax Effect | 6,273         | 1.4         | 3,225         | 0.6         | 16,005         | 1.7         |
| Income before Extraordinary Gain                      | 83,954        | 18.8        | 90,753        | 16.3        | 166,388        | 17.7        |
| Extraordinary Gain, Net of Applicable Tax Effect      |               |             | 573           | 0.1         |                |             |
| <b>Net Income</b>                                     | <b>83,954</b> | <b>18.8</b> | <b>91,326</b> | <b>16.4</b> | <b>166,388</b> | <b>17.7</b> |

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Per Share Data (Unaudited)

|                                   | Yen  |  | The fiscal year            |
|-----------------------------------|--|--|----------------------------|
|                                   | The six months<br>ended<br>September 30,<br>2005 | The six months<br>ended<br>September 30,<br>2006 | ended<br>March 31,<br>2006 |
| Earnings Per Share Basic:         |  |  |                            |
| Income from Continuing Operations | 886.30   | 972.11   | 1,702.68                   |
| Discontinued Operations           | 71.57  | 35.82  | 181.21                     |
| Extraordinary Gain                |  | 6.36   |                            |
| Net Income                        | 957.87   | 1,014.29   | 1,883.89                   |
| Earnings Per Share Diluted:       |  |  |                            |
| Income from Continuing Operations | 840.65   | 937.44   | 1,619.66                   |
| Discontinued Operations           | 67.28  | 34.21  | 170.64                     |
| Extraordinary Gain                |  | 6.08   |                            |
| Net Income                        | 907.93   | 977.73   | 1,790.30                   |

**Table of Contents****(3) Condensed Consolidated Statements of Shareholders Equity (Unaudited)**

|  | Millions of yen                               |   | The fiscal year ended |
|--|---|---|-----------------------|
|  | The six months ended<br>September 30,<br>2005 | The six months ended<br>September 30,<br>2006 | March 31,<br>2006     |
| <b>Common Stock:</b>   |   |   |                       |
| Beginning balance  | 73,100  | 88,458  | 73,100                |
| Exercise of warrants and stock acquisition rights                | 1,670   | 785   | 2,829                 |
| Conversion of convertible bond                                   | 1,750   | 462   | 12,529                |
| Ending balance   | 76,520  | 89,705  | 88,458                |
| <b>Additional Paid-in Capital:</b>                               |   |   |                       |
| Beginning balance  | 91,045  | 106,729                                       | 91,045                |
| Exercise of warrants, stock acquisition rights and stock options | 1,667   | 785   | 2,831                 |
| Stock-based compensation   |   | 1,848   |                       |
| Conversion of convertible bond                                   | 1,750   | 462   | 12,528                |
| Other, net   | 140   | 274   | 325                   |
| Ending balance   | 94,602  | 110,098                                       | 106,729               |
| <b>Legal Reserve:</b>  |   |   |                       |
| Beginning balance  | 2,220   | 2,220   | 2,220                 |
| Ending balance   | 2,220   | 2,220   | 2,220                 |
| <b>Retained Earnings:</b>  |   |   |                       |
| Beginning balance  | 570,494                                       | 733,386                                       | 570,494               |
| Cash dividends   | (3,496)                                       | (8,092)                                       | (3,496)               |
| Net income   | 83,954  | 91,326  | 166,388               |
| Ending balance   | 650,952                                       | 816,620                                       | 733,386               |
| <b>Accumulated Other Comprehensive Income (Loss):</b>            |   |   |                       |
| Beginning balance  | (1,873)                                       | 27,603  | (1,873)               |
| Net change of unrealized gains on investment in securities       | (2,931)                                       | (7,861)                                       | 10,706                |
| Net change of minimum pension liability adjustments              | (56)  | 18  | 458                   |
| Net change of foreign currency translation adjustments           | 7,706   | 1,157   | 13,478                |
| Net change of unrealized gains on derivative instruments         | 1,668   | (1,423)                                       | 4,834                 |
| Ending balance   | 4,514   | 19,494  | 27,603                |
| <b>Treasury Stock:</b>   |   |   |                       |
| Beginning balance  | (7,653)                                       | (4,750)                                       | (7,653)               |
| Exercise of stock options  | 354   | 953   | 3,025                 |
| Other, net   | (89)  | (1)   | (122)                 |
| Ending balance   | (7,388)                                       | (3,798)                                       | (4,750)               |

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| <b>Total Shareholders Equity:</b>       |         |           |         |
|---|---------|-----------|---------|
| Beginning balance                       | 727,333 | 953,646   | 727,333 |
| Increase, net                           | 94,087  | 80,693    | 226,313 |
| Ending balance                          | 821,420 | 1,034,339 | 953,646 |
| <b>Summary of Comprehensive Income:</b> |         |           |         |
| Net income                              | 83,954  | 91,326    | 166,388 |
| Other comprehensive income (loss)       | 6,387   | (8,109)   | 29,476  |
| Comprehensive income                    | 90,341  | 83,217    | 195,864 |

**Table of Contents****(4) Condensed Consolidated Statements of Cash Flows**

|   | Millions of yen                                  |  |   |
|---|--|--|---|
|   | The six months<br>ended<br>September 30,<br>2005 | The six months<br>ended<br>September 30,<br>2006 | The fiscal year<br>ended<br>March 31,<br>2006 |
| <b>Cash Flows from Operating Activities:</b>                                      |  |  |   |
| Net income  | 83,954   | 91,326   | 166,388                                       |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |  |   |
| Depreciation and amortization   | 59,444   | 71,795   | 135,352                                       |
| Provision for doubtful receivables and probable loan losses                       | 6,848  | 3,720  | 16,477  |
| Decrease in policy liabilities  | (31,031)   | (8,842)  | (47,172)                                      |
| Gains from securitization transactions  | (4,035)  | (2,740)  | (7,139)                                       |
| Equity in net income of affiliates  | (15,607)   | (15,017)   | (32,080)                                      |
| Gains on sales of subsidiaries and affiliates and liquidation losses              | (1,800)  | (1,156)  | (2,732)                                       |
| Extraordinary gain  |  | (573)  |   |
| Minority interests in earnings of subsidiaries, net                               | 975  | 1,747  | 3,245   |
| Gains on sales of available-for-sale securities                                   | (6,402)  | (9,266)  | (10,401)                                      |
| Gains on sales of real estate under operating leases                              | (9,445)  | (12,170)   | (8,970)                                       |
| Gains on sales of operating lease assets other than real estate                   | (4,895)  | (6,515)  | (7,184)                                       |
| Write-downs of long-lived assets  | 521  | 1,318  | 8,336   |
| Write-downs of securities   | 2,668  | 2,142  | 4,540   |
| Decrease (increase) in restricted cash  | (16,186)   | 64,452   | (119,202)                                     |
| Decrease (increase) in trading securities   | (7,425)  | 7,003  | (9,091)                                       |
| Increase in inventories   | (14,803)   | (28,645)   | (56,596)                                      |
| Increase in prepaid expenses  | (3,940)  | (5,536)  | (2,316)                                       |
| Increase (decrease) in accrued expenses   | (8,512)  | (4,363)  | 2,755   |
| Increase in security deposits   | 24,123   | 7,201  | 48,597  |
| Other, net  | 57,705   | 10,081   | 53,196  |
| Net cash provided by operating activities   | 112,157  | 165,962  | 136,003                                       |

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|  | Millions of yen                                  |  | The fiscal year            |
|--|--|--|----------------------------|
|  | The six months<br>ended<br>September 30,<br>2005 | The six months<br>ended<br>September 30,<br>2006 | ended<br>March 31,<br>2006 |
| <b>Cash Flows from Investing Activities:</b>   |  |  |                            |
| Purchases of lease equipment   | (509,873)  | (536,368)  | (1,136,538)                |
| Principal payments received under direct financing leases                              | 314,488  | 304,156  | 670,781                    |
| Net proceeds from securitization of lease receivables, loan receivables and securities | 102,287  | 84,191   | 194,806                    |
| Installment loans made to customers  | (783,614)  | (1,089,193)                                      | (1,834,192)                |
| Principal collected on installment loans   | 616,456  | 724,812  | 1,200,337                  |
| Proceeds from sales of operating lease assets  | 89,306   | 78,592   | 130,992                    |
| Investment in affiliates, net  | (7,716)  | 243  | 10,754                     |
| Purchases of available-for-sale securities   | (91,389)   | (81,072)   | (201,123)                  |
| Proceeds from sales of available-for-sale securities                                   | 72,752   | 28,965   | 166,251                    |
| Maturities of available-for-sale securities  | 20,202   | 16,552   | 38,706                     |
| Purchases of other securities  | (20,321)   | (34,767)   | (34,634)                   |
| Proceeds from sales of other securities  | 15,966   | 27,089   | 23,142                     |
| Purchases of other operating assets  | (15,774)   | (25,508)   | (25,630)                   |
| Acquisitions of subsidiaries, net of cash acquired                                     |  | (15,851)   | (38,837)                   |
| Sales of subsidiaries, net of cash disposed  | 1,500  | 529  | 2,664                      |
| Other, net   | 12,943   | (3,223)  | 33,164                     |
| <br>Net cash used in investing activities  | <br>(182,787)                                    | <br>(520,853)                                    | <br>(799,357)              |
| <b>Cash Flows from Financing Activities:</b>   |  |  |                            |
| Net increase in debt with maturities of three months or less                           | 43,425   | 97,585   | 326,285                    |
| Proceeds from debt with maturities longer than three months                            | 919,112  | 1,086,631  | 2,102,054                  |
| Repayment of debt with maturities longer than three months                             | (878,214)  | (938,003)  | (1,697,828)                |
| Net increase (decrease) in deposits due to customers                                   | 17,603   | (3,941)  | 16,628                     |
| Issuance of common stock   | 3,476  | 1,570  | 5,975                      |
| Dividends paid   | (3,496)  | (8,092)  | (3,496)                    |
| Net decrease in call money   |  | 16,200   | 10,000                     |
| Other, net   | 266  | 954  | 2,910                      |
| <br>Net cash provided by financing activities  | <br>102,172                                      | <br>252,904                                      | <br>762,528                |
| <br>Effect of Exchange Rate Changes on Cash and Cash Equivalents                       | <br>643  | <br>102  | <br>1,302                  |
| <br>Net Increase (Decrease) in Cash and Cash Equivalents                               | <br>32,185                                       | <br>(101,885)                                    | <br>100,476                |
| Cash and Cash Equivalents at Beginning of Period                                       | 145,380  | 245,856  | 145,380                    |
| <br>Cash and Cash Equivalents at End of Period   | <br>177,565                                      | <br>143,971                                      | <br>245,856                |

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

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### **Notes to Consolidated Financial Statements**

#### **1. Overview of Accounting Principles Utilized**

In preparing the accompanying consolidated financial statements, ORIX Corporation ( the Company ) and its subsidiaries have complied with requirements of accounting principles, procedures and disclosure related to issuing American Depositary Receipts, and generally accepted accounting principles in the United States of America ( U.S. GAAP ), modified for the accounting for stock splits (see Note 2 (n)).

Since the Company listed on the New York Stock Exchange in September 1998, the Company has prepared the consolidated financial statements based on terms, formats and preparations pursuant to the rules regarding issuing American Depositary Receipts and registered with the Securities and Exchange Commission.

Significant differences between U.S. GAAP and generally accepted accounting principles in Japan ( Japanese GAAP ) are as follows:

##### **(a) Direct financing leases**

Under U.S. GAAP, a lessor accounts for a lease that transfers substantially all of the benefits and risks of ownership to the lessee as a sale or a financing, the Company and its subsidiaries account for ORIX s lease transaction as a financing ( direct financing leases ). Certain direct financing lease origination costs ( initial direct costs ) are being deferred and amortized over the lease term as a yield adjustment.

Under Japanese GAAP, direct financing leases are accounted for as an ordinary sale in principle, while direct financing leases where the ownership of the property is not deemed to be transferred to a lessee can be accounted for in the same manner as operating leases if necessary information is disclosed in the notes to the consolidated financial statements.

Regarding the securitization of direct financing lease receivables, under U.S. GAAP, the Company and its subsidiaries account for the securitization as a sale if it meets the conditions required in FASB Statement No. 140 ( Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ). Under Japanese GAAP, in the case of accounting for direct financing leases in the same manner as operating leases, the securitization is accounted for as a financing transaction secured by the future lease payments.

##### **(b) Origination costs on installment loans**

Under U.S. GAAP, certain loan origination costs ( initial direct costs ) are being deferred and amortized over the loan term using the interest method.

On the other hand, under Japanese GAAP, those origination costs are recognized as expenses at the inception.

##### **(c) Operating leases**

Under U.S. GAAP, revenues from operating leases are recognized on a straight-line basis over the contract terms. Also operating lease assets are depreciated over their estimated useful lives mainly on a straight-line basis.

On the other hand, Japanese GAAP allows for operating lease assets to be depreciated using either the declining-balance method or straight-line method.

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### **(d) Accounting for life insurance operations**

Based on FASB Statement No. 60 ( Accounting and Reporting by Insurance Enterprises ), certain costs associated with writing insurances ( deferred policy acquisition costs ) are being deferred and amortized over the respective policy periods in proportion to anticipated premium revenue. Under Japanese GAAP, such costs are recorded as expenses currently in earnings in each accounting period.

In addition, under U.S. GAAP, although policy liabilities for future policy benefits are established for by the net level premium method, based on actuarial estimates of the amount of future policyholder benefits, these are calculated by the methodology which relevant authorities accept in Japan.

### **(e) Accounting for business combinations, goodwill and other intangible assets**

Under U.S. GAAP, all business combinations are accounted for using the purchase method. Accounting for business combinations using the pooling of interest method is no longer allowed.

Goodwill and intangible assets that have indefinite useful lives are not amortized, but are tested at least annually for impairment.

Under Japanese GAAP, goodwill is amortized over an appropriate period up to 20 years.

### **(f) Accounting for pension plans**

Under U.S. GAAP, the Company and its subsidiaries adopted FASB Statement No. 87 ( Employers Accounting for Pensions ) and recorded pension costs based on the amounts determined using actuarial methods. Minimum pension liabilities are recorded when the accumulated benefit obligation exceeded the fair value of plan assets and accrued pension costs.

Under U.S. GAAP, the unrealized net actuarial loss is amortized using a corridor test. However, under Japanese GAAP, the unrealized net actuarial loss is amortized over a certain term within the average remaining service period of employees expected to receive related benefits.

### **(g) Reporting on discontinued operations**

Under U.S. GAAP, in accordance with FASB Statement No.144 ( Accounting for the Impairment or Disposal of Long-Lived Assets ), the financial result of discontinued operations and disposal gain or loss are presented as a separate line from continuing operations less applicable income taxes in the consolidated statements of income. The result of discontinued operations was reclassified as income from discontinued operations in each prior year in the accompanying consolidated statements of income and consolidated statements of cash flows.

Under Japanese GAAP, there are no rules on reporting discontinued operations and the amounts are not presented from continuing operations. Prior consolidated financial statements were not reclassified.

### **(h) Minority interests**

Under U.S. GAAP, minority interests are stated separately and in-between Liabilities and Stockholders Equity in the consolidated balance sheet.

Under Japanese GAAP, Stockholders Equity, Liabilities and Net Assets are presented separately in the consolidated balance sheet, and minority interests are included in Net Assets.

### **(i) Segment information**

In accordance with FASB Statement No. 131 ( Disclosure about Segment of an Enterprise and Related information ), segment financial information is based on that which is regularly used by management for evaluating segment performance and deciding how to allocate resources.

Japanese GAAP requires disclosure of the information according to the kind of enterprise on the basis of products, the information according to location on the basis of the location of a selling agency, and the overseas sales information on the basis of a customer s location.





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**(j) Classification in consolidated statements of cash flows**

Classification in the statements of cash flows under U.S. GAAP is based on FASB Statement No. 95 ( Statement of Cash Flows ), which differs from Japanese GAAP. As significant differences, purchase of lease equipment and principal payments received under direct financing leases, proceeds from sales of operating lease assets, installment loans made to customers and principal collected on installment loans are included in Cash Flows from Investing Activities under U.S. GAAP while they are classified as Cash Flows from Operating Activities under Japanese GAAP.

**2. Significant Accounting and Reporting Policies**

**(a) Principles of consolidation**

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Investments in affiliates, where the Company has the ability to exercise significant influence by way of 20%-50% ownership or other means, are accounted for by using the equity method. For certain entities where the Company holds majority voting interests but minority shareholders have substantive participation rights to decisions that occur as part of the ordinary course of their business, the equity method is applied pursuant to EITF96-16 (Investor's accounting for an investee when the investor has a majority of the voting interest but the minority shareholder or shareholders have certain approval or veto rights). A lag period of up to three months is used on a consistent basis when considered necessary and appropriate for recognizing the results of subsidiaries and affiliates.

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

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

**(b) Use of estimates**

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

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**(c) Foreign currencies translation**

The Company and its subsidiaries maintain their accounting records in their functional currency.

Transactions in foreign currencies are recorded in the entity's functional currency based on the prevailing exchange rates on the transaction date.

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

**(d) Recognition of revenues**

Revenues are recognized when persuasive evidence of an arrangement exists, the service has been rendered or the goods have been delivered to the customer, the transition price is fixed or determinable and collectibility is reasonably assured.

In addition to the aforementioned general policy, the policies as specifically described hereinafter are applied for each of the major revenue items.

**Leases** The Company and its subsidiaries lease various assets to customers under direct financing or operating lease arrangements. Classification of a lease arrangement into either a direct financing lease or an operating lease is depending upon the specific conditions of the arrangement. Revenue recognition policies applied for direct financing leases and operating leases are specifically described in sections following this paragraph. In providing leasing services, the Company and its subsidiaries execute supplemental services, such as paying insurance and handling taxes on leased assets on behalf of lessees. In some cases, automobile maintenance services are also provided to lessees. Where under terms of the lease or related maintenance agreements the Company and its subsidiaries bear the favorable or unfavorable variability of cost, revenues and expenses are recorded on a gross basis. For those arrangements in which the Company or its subsidiaries do not have substantial risks and rewards of ownership, but instead serve as an agent in collecting from lessees and remitting payments to third parties, the Company and its subsidiaries records revenue net of third-party services costs. Revenues from automobile maintenance services are deferred and taken into income over the contract period in proportion to the estimated service costs to be incurred and are recorded in other operating revenues in the accompanying consolidated statements of income.

**(1) Recognition of revenues for direct financing leases**

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

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(2) Recognition of revenues for operating leases

Revenues from operating leases are recognized on a straight-line basis over the contract terms. Operating lease assets are recorded at cost and are depreciated over their estimated useful lives mainly on a straight-line basis. Estimated average useful lives of principal operating lease assets classified as transportation equipment is 7 years, as measuring equipment and personal computers is 4 years, and as real estate is 30 years. Depreciation costs are included in costs of operating leases. Gains or losses arising from dispositions of operating lease assets, except real estate operating leases, are included in operating lease revenues. With respect to some sales of formerly leased real estate such as commercial buildings, the Company or its subsidiaries may retain an interest in some cash flows from the real estate in the form of property management or other participation in performance of the lease asset. Where the Company or its subsidiaries have continuing involvement with the cash flows from disposal of such previously leased real estate, the gains or losses arising from such disposition are separately disclosed as Gains on sales of real estate under operating leases whereas if the Company or its subsidiaries have no continuing involvement with the cash flows from such disposed real estate gains or losses are reported as Discontinued operations-Income from discontinued operations, net. Estimates of residual values are based on current market values of used equipment and estimates of when and how much equipment will become obsolete.

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

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

Interest payments received on loans with evidence of deterioration of credit quality since origination and for which it is probable at acquisition that collection of all contractually required payments from the debtors is unlikely are recognized on cash basis method or recorded as reductions of principal if the timing and amount of cash flows expected to be collected are reasonably unable to be estimated.

**Non-accrual policy** Revenues on direct financing leases and installment loans are no longer accrued at the time when principal or interest become past due 90 days or more, or earlier, if management believes their collectibility is doubtful. Accrued but uncollected interest is reclassified to investment in direct financing leases or installment loans in the accompanying consolidated balance sheet and becomes subject to the allowance for doubtful receivables and probable loan loss process. Cash repayments received on these accounts are applied first against any due until qualifying for a return to accrual status and then any surpluses are taken to income.

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

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

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**(e) Insurance premiums and expenses**

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

Life insurance benefits are recorded as expenses when they are incurred. Policy liabilities for future policy benefits are established for by the net level premium method, based on actuarial estimates of the amount of future policyholder benefits. FASB Statement No. 60 ( Accounting and Reporting by Insurance Enterprises ) requires insurance companies to defer certain costs associated with writing insurances ( deferred policy acquisition costs ) and amortize over the respective policy periods in proportion to anticipated premium revenue. Deferred policy acquisition costs are the costs related to the acquisition of new and renewal insurance policies and consist primarily of first-year commissions in excess of recurring policy maintenance costs and certain variable costs and expenses for underwriting policies.

Amortization charged to income for the six months ended September 30, 2005 and 2006, and for the fiscal year ended March 31, 2006 amounted to (Y)5,071 million, (Y)5,390 million and (Y)10,179 million, respectively.

**(f) Allowance for doubtful receivables on direct financing leases and probable loan losses**

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

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

Receivables are charged off when, in the opinion of management, the likelihood of any future collection is believed to be minimal.

**(g) Impairment of long-lived assets**

The Company and its subsidiaries have followed FASB Statement No. 144 ( Accounting for the Impairment or Disposal of Long-Lived Assets ). Under FASB Statement No. 144, long-lived assets to be held and used in operations, including tangible assets and intangible assets being amortized, consisting primarily of real estate development projects, golf courses and other operating assets, are tested for recoverability whenever events or changes in circumstances indicates that the assets might be impaired. When the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets, the net carrying value of assets not recoverable is reduced to fair value if lower than the carrying value. In determining fair value, appraisals prepared by independent third party appraisers or the Company's own staff of qualified appraisers, based on recent transactions involving sales of similar assets or other valuation techniques to estimate fair value are utilized.

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**(h) Investment in securities**

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

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

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

Generally, the Company and its subsidiaries recognize losses related to available-for-sale securities and held-to-maturity securities for which the market price has been significantly below the acquisition cost (or current carrying value if an adjustment has been made in the past) for more than six months. In addition, the Company and its subsidiaries recognize losses related to available-for-sale securities and held-to-maturity securities in certain other situations. The Company and its subsidiaries charge against income losses related to debt securities in situations where, even though the market value has not remained significantly below the carrying value for six months, it is considered that the decline in the market value of a debt security is other than temporary because there has been a significant deterioration in a bond issuer's credit rating, an issuer's default or a similar event. Moreover, the Company and its subsidiaries charge against income losses related to equity securities in situations where, even though the market value has not remained significantly below the carrying value for six months, the decline in the market value of an equity security is based on issuer's specific economic conditions and not just general declines in the related market and where it is considered unlikely that the market value of the equity security will recover within the next six months.

**(i) Income taxes**

The Company, in general, determines its provision for income taxes for interim periods by applying the current estimate of the effective tax rate for the full fiscal year to the actual year-to-date income before income taxes, minority interests in earnings of subsidiaries, discontinued operations and extraordinary gain. The estimated effective tax rate is determined by dividing the estimated provision for income for the full fiscal year by the estimated income before income taxes, minority interests in earnings of subsidiaries, discontinued operations and extraordinary gain for the full fiscal year.

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

The effective income tax rates are 40.8%, 41.0% and 38.7% for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006, respectively. The Company and its subsidiaries in Japan are subject to a National Corporate tax of 30%, an Inhabitant tax of approximately 6% and a deductible Enterprise tax of approximately 8%, which in the aggregate resulted in a statutory income tax rate of approximately 40.9% for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006. The effective income tax rate is different from the statutory tax rate primarily because of certain non-deductible expenses for tax purposes, a change in valuation allowance and the effect of lower income tax rates on foreign subsidiaries and a life insurance subsidiary in Japan.

**Table of Contents****(j) Securitized assets**

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

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

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

**(k) Derivative financial instruments**

All derivatives held by the Company and its subsidiaries are recognized on the consolidated balance sheet at fair value. The accounting treatment of subsequent changes in their fair value depends on their use, and whether they qualify as effective hedges for accounting purposes. Derivatives that are not hedges must be adjusted to fair value through the consolidated income statement. If a derivative is a hedge, then depending on its nature, changes in its fair value will be either offset against change in the fair value of hedged assets or liabilities through the income statement, or recorded in other comprehensive income.

If a derivative is held as a hedge of the variability of fair value related to a recognized asset or liability or an unrecognized firm commitment ( fair value hedge), changes in the fair value of the derivative are recorded in earnings along with the changes of the fair value of the hedged item.

If a derivative is held as a hedge of the variability of cash flows related to a forecasted transaction, a recognized asset or liability ( cash flow hedge), changes in the fair value of the derivative are recorded in accumulated other comprehensive income (loss) to the extent that the derivative is effective as hedge, until earnings are affected by the variability in cash flows of the designated hedged item.

If a derivative is held as a hedge of a foreign-currency fair-value or cash-flow hedge ( foreign currency hedge), changes in the fair value of the derivative are recorded in either earnings or accumulated other comprehensive income (loss), depending on whether the hedged transaction is a fair-value hedge or a cash-flow hedge. However, if a derivative is used as a hedge of a net investment in a foreign operation, changes in its fair value, to the extent effective as a hedge, are recorded in the foreign currency translation adjustments account within accumulated other comprehensive income (loss).

Changes in the fair value of a derivative, which is not held as hedge, such as those held for trading use, or the ineffective portion of the change in fair value of a derivative that qualifies as hedge, are recorded in earnings.

For all hedging relationships, at inception the Company and its subsidiaries formally document the details of the hedging relationship and hedged activity. The Company and its subsidiaries also formally assess, both at the hedge's inception and on an ongoing basis, the effectiveness of the hedge relationship. The Company and its subsidiaries cease hedge accounting prospectively when the derivative no longer qualifies the criteria for hedge accounting.

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**(I) Pension plans**

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



**Table of Contents****(m) Stock-based compensation**

The Company and its subsidiaries adopted FASB Statement No. 123 (revised 2004) (FASB Statement No. 123(R)) ( Share-Based Payment ), using the modified prospective method, in the six months ended September 30, 2006. FASB Statement 123(R) supersedes APB Opinion No. 25 ( Accounting for Stock Issued to Employees ) and replaces the existing FASB Statement No. 123 ( Accounting for Stock-Based compensation ), and requires, with limited exception, that stock-based compensation expenses in exchange of their service provided by employees be measured based on the grant-date fair value. The expenses are recognized over an employee requisite service period.

Until the fiscal year ended March 31, 2006, the Company accounted for the stock-based compensation by applying the intrinsic value approach pursuant to APB Opinion No. 25 and recognized no compensation expenses for the six months ended September 30, 2005 and the fiscal year ended March 31, 2006, with the exclusion of the expenses related to the stock compensation program for directors, executive officers and group executives which was introduced during the fiscal year ended March 31, 2006.

Had compensation expenses for the Company's stock option plans been determined consistent with FASB Statement No. 123, net income and earnings per share (EPS) for the period ended September 30, 2005 and for the fiscal year ended March 31, 2006 as follows:

|   | The six months<br>ended<br>September 30,<br>2005 | Millions of yen<br>The six months<br>ended<br>September 30,<br>2006 | The fiscal year<br>ended<br>March 31,<br>2006 |
|---|--|---|---|
| As reported:  |  |   |   |
| Net Income  | 83,954   | 91,326  | 166,388                                       |
| Add: Stock-based compensation expenses included in reported net income              | 112  |   | 313   |
| Less: Total stock-based compensation expenses determined by fair value based method | (1,330)  |   | (3,567)                                       |
| Pro forma:  |  |   |   |
| Net Income  | 82,736   |   | 163,134                                       |
|   |  | Yen   |   |
|   | The six months<br>ended<br>September 30,<br>2005 | The six months<br>ended<br>September 30,<br>2006                    | The fiscal year<br>ended<br>March 31,<br>2006 |
| Net Income  |  |   |   |
| As reported:  |  |   |   |
| Basic EPS   | 957.87   | 1,014.29  | 1,883.89                                      |
| Diluted EPS   | 907.93   | 977.73  | 1,790.30                                      |
| Pro forma:  |  |   |   |
| Basic EPS   | 943.97   |   | 1,847.05                                      |
| Diluted EPS   | 894.87   |   | 1,755.61                                      |

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The Company recognized stock-based compensation expenses of (Y)2,207 million using the binominal option pricing model in the six months ended September 30, 2006 while the fair value of stock options was measured using the Black-Scholes option pricing model until the fiscal year ended March 31, 2006.

### **(n) Stock splits**

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

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

In the United States, stock splits in comparable circumstances are considered to be stock dividends and are accounted for by transferring from retained earnings to common stock and additional paid-in capital amounts equal to the fair market value of the shares issued. Common stock is increased by the par value of the shares and additional paid-in capital is increased by the excess of the market value over par value of the shares issued.

Had such stock splits made prior to October 1, 2001 been accounted for in this manner, additional paid-in capital as of September 30, 2006 would have increased by approximately (Y)24,674 million, with a corresponding decrease in retained earnings. Total shareholders' equity would remain unchanged. A stock split on May 19, 2000 was excluded from the above amounts because the stock split was not considered to be a stock dividend under accounting principles generally accepted in the United States of America.

### **(o) Cash and cash equivalents**

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

### **(p) Restricted cash**

Restricted cash consists of cash held in trusts for the segregation of assets under an investor protection fund, deposits related to servicing agreements and deposits collected on behalf of the customers and applied to Non-recourse loans.

### **(q) Other operating assets**

Other operating assets consist primarily of operating facilities (including golf courses, hotels, training facilities and waste management facilities), which are stated at cost less accumulated depreciation, and depreciation is calculated mainly on the straight-line basis over the estimated useful lives of the assets. Accumulated depreciation was (Y)7,633 million and (Y)11,092 million and (Y)9,877 million as of September 30, 2005 and 2006, and March 31, 2006, respectively. Estimated useful lives range up to 50 years for buildings, up to 60 years for fixtures and up to 20 years for others.

### **(r) Other receivables**

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

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**(s) Inventories**

Inventories consist primarily of advance and/or progress payments for development of residential condominiums for sale and completed residential condominiums (including completed residential condominiums waiting to be delivered to buyers under the contracts for sales). Advance and/or progress payments for development of residential condominiums for sale are carried at cost less any impairment losses and finished goods (including completed residential condominiums) are stated at the lower of cost or market. As of September 30, 2005 and 2006, and March 31, 2006, advance and/or progress payments were (Y)100,584 million, (Y)144,927 million and (Y)127,098 million, respectively, and finished goods were (Y)14,474 million, (Y)13,254 million and (Y)13,451 million, respectively.

**(t) Office facilities**

Office facilities are stated at cost less accumulated depreciation. Depreciation is calculated on a declining-balance basis or straight-line basis over the estimated useful lives of the assets. Accumulated depreciation was (Y)32,073 million, (Y)34,291 million and (Y)32,672 million as of September 30, 2005 and 2006, and March 31, 2006, respectively. Estimated useful lives range up to 55 years for buildings and fixtures and up to 20 years for machinery and equipment.

**(u) Other assets**

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

**(v) Goodwill and other intangible assets**

The Company and its subsidiaries have followed FASB Statement No. 141 ( Business Combination ) and FASB Statement No. 142 ( Goodwill and Other Intangible Assets ).

FASB Statement No. 141 requires that all business combinations be accounted for using the purchase method. Accounting for business combinations using the pooling of interest method is no longer allowed. FASB Statement No. 141 also requires that intangible assets acquired in a business combination be recognized apart from goodwill if the intangible assets meet one of two criteria either the contractual-legal criterion or the separability criterion.

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

The amount of goodwill is (Y)19,303 million, (Y)77,393 million and (Y)65,003 million as of September 30, 2005 and 2006, and March 31, 2006, respectively.

**(w) Trade notes, accounts payable and other liabilities**

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

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**(x) Discontinued operations**

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

**(y) Earnings per share**

Basic earnings per share is computed by dividing income from continuing operations and net income by the weighted average number of shares of common stock outstanding in each period and diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Earnings per share is adjusted for any stock splits and stock dividends retroactively.

Furthermore, the Company and its subsidiaries have applied EITF Issue No.04-8 ( The Effect of Contingently Convertible Instruments on Diluted Earnings per Share ) to Liquid Yield Option Notes<sup>TM</sup>.

**(z) Issuance of stock by a subsidiary or an affiliate**

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

**(aa) New accounting pronouncements**

There is no new accounting pronouncement, which has a significant effect on the Company and its subsidiaries' result of operations and financial position.

**(ab) Reclassifications**

Certain amounts in the consolidated financial statements for the six months ended September 30, 2005 have been reclassified to conform to the presentation for the six months ended September 30, 2006. On the consolidated balance sheets, minority interests which had been included in trade notes, accounts payable and other liabilities were disclosed separately. On the consolidated statements of income, lease income associated with re-leasing of assets upon maturity of a direct financing lease, which had been recorded in the six months ended September, 30, 2005 net of depreciation costs of estimated residual values and included in revenues of direct financing leases, was reclassified into revenues of operating leases with depreciation costs included in costs of operating leases. In addition, revenues and costs of vehicle maintenance and management services contained in an automobile lease contract, which had been previously recorded net and included in revenues of direct financing leases, were reclassified into other operating revenues and other operating expenses, respectively. From the fiscal year ended March 31, 2006, minority interests in earnings of subsidiaries, net which had been included in selling, general and administrative expenses in the six months ended September 30, 2005 were disclosed separately.

**Table of Contents****3. Cash Flow Information**

Cash payments for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006 are as follows:

|                | Millions of yen                         |   | The fiscal year      |
|----------------|---|---|----------------------|
|                | The six months ended September 30, 2005 | The six months ended September 30, 2006 | ended March 31, 2006 |
| Cash payments: |   |   |                      |
| Interest       | 32,135                                  | 40,603                                  | 65,812               |
| Income taxes   | 24,666                                  | 51,423                                  | 57,920               |

Non-cash investing and financing activities are excluded from the consolidated statements of cash flows. As non-cash investing activities, the Company and its subsidiaries assumed (Y)7,793 million and (Y)50,567 million of liabilities in connection with acquisitions for the six months ended September 30, 2006 and the fiscal year ended March 31, 2006, respectively. There was not applicable for the six months ended September 30, 2005. In addition, subsidiary's common stocks of (Y)19,148 million were exchanged in connection with an acquisition in the fiscal year ended March 31, 2006. As non-cash financing activities, (Y)3,500 million, (Y)924 million and (Y)25,057 million of convertible bonds were converted to common stocks for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006, respectively.

**4. Investment in Direct Financing Leases**

Investment in direct financing leases at September 30, 2005 and 2006, and March 31, 2006 consists of the following:

|                                   | Millions of yen    |                    |                |
|-----------------------------------|--------------------|--------------------|----------------|
|                                   | September 30, 2005 | September 30, 2006 | March 31, 2006 |
| Minimum lease payments receivable | 1,551,894          | 1,532,306          | 1,536,081      |
| Estimated residual value          | 62,281             | 58,709             | 58,611         |
| Initial direct costs              | 16,545             | 15,111             | 16,373         |
| Unearned lease income             | (168,366)          | (172,535)          | (173,574)      |
|                                   | 1,462,354          | 1,433,591          | 1,437,491      |

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At September 30, 2005 and 2006, and March 31, 2006, the amounts of minimum lease payments receivable (including guaranteed residual values) due within one year and more than one year are as follows:

|                    | Millions of yen       |                       |                   |
|--------------------|-----------------------|-----------------------|-------------------|
|                    | September 30,<br>2005 | September 30,<br>2006 | March 31,<br>2006 |
| Within one year    | 442,387               | 566,586               | 564,499           |
| More than one year | 1,109,507             | 965,720               | 971,582           |
| <b>Total</b>       | <b>1,551,894</b>      | <b>1,532,306</b>      | <b>1,536,081</b>  |

Gains and losses from the final disposition of direct financing lease assets are not significant for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006

**5. Investment in Operating Leases**

Investment in operating leases at September 30, 2005 and 2006, and March 31, 2006 consists of the following:

|  | Millions of yen       |                       |                      |
|--|-----------------------|-----------------------|----------------------|
|  | September 30,<br>2005 | September 30,<br>2006 | March<br>31,<br>2006 |
| Transportation equipment                   | 405,208               | 479,145               | 437,012              |
| Measuring equipment and personal computers | 159,799               | 162,828               | 166,679              |
| Real estate and other                      | 279,144               | 425,409               | 389,081              |
|  | 844,151               | 1,067,382             | 992,772              |
| Accumulated depreciation                   | (268,127)             | (298,361)             | (288,853)            |
| Net  | 576,024               | 769,021               | 703,919              |
| Rental receivables                         | 15,032                | 17,673                | 16,177               |
|  | 591,056               | 786,694               | 720,096              |

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

For the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006, gains from the disposition of assets under operating leases other than real estate are (Y) 4,895 million, (Y)6,515 million and (Y)7,184 million, respectively, and are included in operating lease revenues.

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The operating lease contracts include non-cancelable lease terms. The minimum future rentals on non-cancelable operating leases at September 30, 2005 and 2006, and March 31, 2006 are as follows:

|                    | Millions of yen       |                       |                   |
|--------------------|-----------------------|-----------------------|-------------------|
|                    | September 30,<br>2005 | September 30,<br>2006 | March 31,<br>2006 |
| Within one year    | 74,790                | 113,253               | 102,208           |
| More than one year | 124,839               | 147,814               | 144,932           |
| <b>Total</b>       | <b>199,629</b>        | <b>261,067</b>        | <b>247,140</b>    |

**6. Installment Loans**

The composition of installment loans by domicile and type of borrower at September 30, 2005 and 2006, and March 31, 2006 are as follows:

|   | Millions of yen       |                       |                   |
|---|-----------------------|-----------------------|-------------------|
|   | September 30,<br>2005 | September 30,<br>2006 | March 31,<br>2006 |
| <b>Borrowers in Japan:</b>                                |                       |                       |                   |
| Consumer  |                       |                       |                   |
| Housing loans   | 504,523               | 641,423               | 654,171           |
| Card loans  | 242,890               | 330,492               | 318,910           |
| Other   | 75,900                | 88,236                | 113,217           |
|   | 823,313               | 1,060,151             | 1,086,298         |
| <b>Corporate</b>  |                       |                       |                   |
| Real estate related companies                             | 390,430               | 529,241               | 416,128           |
| Commercial and industrial companies                       | 915,519               | 1,164,741             | 1,002,076         |
|   | 1,305,949             | 1,693,982             | 1,418,204         |
| <b>Overseas corporate, industrial and other borrowers</b> | <b>217,820</b>        | <b>300,489</b>        | <b>254,994</b>    |
| Purchased loans*  | 132,316               | 183,175               | 153,158           |
| Loan origination costs, net                               | 12,529                | 14,477                | 13,382            |
|   | 2,491,927             | 3,252,274             | 2,926,036         |

\* Purchased loans represent loans with evidence of deterioration of credit quality since origination and for which it is probable at acquisition that collection of all contractually required payments from the debtor is unlikely and consist mainly of housing loans, loans to real estate-related companies and commercial and industrial companies in Japan.

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

Included in interest on loans and investment securities in the consolidated statements of income is interest income on loans of (Y)71,161 million, (Y)84,648 million and (Y)148,910 million for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006, respectively.





**Table of Contents****7. Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses**

Changes in the allowance for doubtful receivables on direct financing leases and probable loan losses for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006 are as follows:

|                              | Millions of yen                         |   |                                      |
|------------------------------|---|---|--------------------------------------|
|                              | The six months ended September 30, 2005 | The six months ended September 30, 2006 | The fiscal year ended March 31, 2006 |
| Beginning balance            | 115,250                                 | 97,002                                  | 115,250                              |
| Provisions charged to income | 6,848                                   | 3,720                                   | 16,477                               |
| Charge-offs                  | (20,572)                                | (12,475)                                | (37,258)                             |
| Recoveries                   | 533                                     | 1,559                                   | 1,127                                |
| Other*                       | 969                                     | 18                                      | 1,406                                |
| Ending balance               | 103,028                                 | 89,824                                  | 97,002                               |

\* Other includes foreign currency translation adjustments, the effect of acquisitions and the amounts reclassified to the discontinued operations. The balance of the allowance broken down into investment in direct financing leases and installment loans at September 30, 2005 and 2006, and March 31, 2006 is as follows:

|                                       | Millions of yen    |                    |                |
|---------------------------------------|--------------------|--------------------|----------------|
|                                       | September 30, 2005 | September 30, 2006 | March 31, 2006 |
| Balance of allowance related to:      |                    |                    |                |
| Investment in direct financing leases | 32,401             | 29,553             | 30,723         |
| Installment loans                     | 70,627             | 60,271             | 66,279         |
| Total                                 | 103,028            | 89,824             | 97,002         |

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

The recorded investments in loans considered impaired are (Y)83,347 million, (Y)85,522 million and (Y)83,658 million as of September 30, 2005 and 2006, and March 31, 2006, respectively. Of these amounts, it was determined that a valuation allowance was required with respect to loans which had outstanding balances of (Y)64,328 million, (Y)64,047 million and (Y)66,543 million as of September 30, 2005 and 2006, and March 31, 2006, respectively. For such loans, the Company and its subsidiaries recorded a valuation allowance of (Y)32,138 million, (Y)27,251 million and (Y)31,056 million as of September 30, 2005 and 2006, and March 31, 2006, respectively. This valuation allowance is included in the allowance for doubtful receivables on direct financing leases and probable loan losses in the accompanying consolidated balance sheets.



**Table of Contents****8. Investment in Securities**

Investment in securities at September 30, 2005 and 2006, and March 31, 2006 consists of the following:

|                               | September 30,<br>2005 | Millions of yen<br>September 30,<br>2006 | March 31,<br>2007 |
|-------------------------------|-----------------------|--|-------------------|
| Trading securities            | 58,040                | 53,641                                   | 61,971            |
| Available-for-sale securities | 399,666               | 466,506                                  | 432,306           |
| Other securities              | 160,982               | 190,980                                  | 188,521           |
|                               | 618,688               | 711,127                                  | 682,798           |

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

The amortized cost basis amounts, gross unrealized holding gains, gross unrealized holding losses and fair values of available-for-sale securities in each major security type at September 30, 2005 and 2006, and March 31, 2006 are as follows:

September 30, 2005

|  | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Fair value |
|--|-------------------|------------------------------|-------------------------------|------------|
| Available-for-sale:  |                   |                              |                               |            |
| Japanese and foreign government bond securities            | 4,503             | 76                           | (233)                         | 4,346      |
| Japanese prefectural and foreign municipal bond securities | 21,259            | 6                            | (241)                         | 21,024     |
| Corporate debt securities                                  | 239,625           | 1,466                        | (1,833)                       | 239,258    |
| Mortgage-backed and other asset-backed securities          | 69,958            | 13,228                       | (2,687)                       | 80,499     |
| Equity securities  | 20,103            | 34,786                       | (350)                         | 54,539     |
|  | 355,448           | 49,562                       | (5,344)                       | 399,666    |

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September 30, 2006

|  | Millions of yen   |                              |                               |            |
|--|-------------------|------------------------------|-------------------------------|------------|
|  | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Fair value |
| <b>Available-for-sale:</b>                                 |                   |                              |                               |            |
| Japanese and foreign government bond securities            | 11,259            | 49                           | (21)                          | 11,287     |
| Japanese prefectural and foreign municipal bond securities | 18,350            | 16                           | (334)                         | 18,032     |
| Corporate debt securities                                  | 285,795           | 1,948                        | (2,287)                       | 285,456    |
| Mortgage-backed and other asset-backed securities          | 75,610            | 12,801                       | (156)                         | 88,255     |
| Equity securities  | 26,698            | 36,902                       | (124)                         | 63,476     |
|  | 417,712           | 51,716                       | (2,922)                       | 466,506    |

March 31, 2006

|  | Millions of yen   |                              |                               |            |
|--|-------------------|------------------------------|-------------------------------|------------|
|  | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Fair value |
| <b>Available-for-sale:</b>                                 |                   |                              |                               |            |
| Japanese and foreign government bond securities            | 1,270             | 60                           | (35)                          | 1,295      |
| Japanese prefectural and foreign municipal bond securities | 18,711            |                              | (508)                         | 18,203     |
| Corporate debt securities                                  | 254,237           | 1,856                        | (3,778)                       | 252,315    |
| Mortgage-backed and other asset-backed securities          | 72,171            | 13,247                       | (389)                         | 85,029     |
| Equity securities  | 25,249            | 50,408                       | (193)                         | 75,464     |
|  | 371,638           | 65,571                       | (4,903)                       | 432,306    |

Included in interest on loans and investment securities in the consolidated statements of income is interest income on investment in securities of (Y)5,721 million, (Y)10,963 million and (Y)12,440 million for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006, respectively.

**Table of Contents****9. Business Transactions with Special Purpose Entities**

The Company and its subsidiaries use special purpose companies, partnerships and trusts (hereinafter referred to as SPEs) in the ordinary course of business. These SPEs are not always accompanied by and are not generally controlled by voting rights. FASB Interpretation No.46 (revised December 2003) ( Consolidation of Variable Interest Entities ) addresses consolidation by business enterprises of SPEs within the scope of the Interpretation. Generally these SPEs are entities where a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties including the equity holders or b) as a group the holders of the equity investment at risk do not have (1) the direct or indirect ability to make decisions about an entity's activities through voting rights or similar rights, or (2) the obligation to absorb the expected losses of the entity or (3) the right to receive the expected residual returns of the entity. There are certain exceptions to these general criteria. Entities within the scope of the Interpretation are called variable interest entities ( VIEs ). The variable interest holder who will absorb a majority of the expected losses or receive a majority of the expected residual returns or both is defined as the primary beneficiary of the entity. VIEs are consolidated by the primary beneficiary of the entity.

Information about significant SPEs for the Company and its subsidiaries are as follows:

**(a) SPEs for liquidating customer assets**

The Company and its subsidiaries may use SPEs in structuring financing for customers to liquidate specific customer assets. The SPEs are typically used to provide a structure that is bankruptcy remote with respect to the customer and such customer requests the use of SPEs structure. Such SPEs typically acquire assets to be liquidated from the customer, borrow non-recourse loans from financial institutions and have an equity investment made by the customer. By using cash flows from the liquidated assets, these SPEs repay the loan and pay dividends to equity investors if sufficient funds exist.

The Company and its subsidiaries provide installment loans to such SPEs in the aggregate of (Y) 12,017 million, (Y)27,401 million and (Y)21,278 million as of September 30, 2005 and 2006 and March 31, 2006, respectively, and occasionally make investments in these SPEs, which amount to (Y)5,992 million, (Y)10,451 million and (Y)6,292 million as of September 30, 2005 and 2006 and March 31, 2006, respectively. The Company and its subsidiaries' risk exposure is limited to the amounts of the loans and investments referred to above.

Among those SPEs, no SPEs were subject to consolidation.

**(b) SPEs for acquisition of real estate and real estate development projects for customers**

Customers and the Company and its subsidiaries are involved with SPEs formed to acquire real estate and/or develop real estate projects. In each case, a customer establishes and makes an equity investment in an SPE that is designed to be bankruptcy remote from the customer. SPEs acquire real estate and/or develop real estate projects.

The Company and its subsidiaries provide non-recourse loans to SPEs and hold certain SPE's bond in the aggregate of (Y)12,823 million, (Y)11,417 million and (Y)4,013 million as of September 30, 2005 and 2006 and March 31, 2006, respectively, and/or make investments in these SPEs, which amount to (Y)12,538 million, (Y)20,656 million and (Y)13,146 million as of September 30, 2005 and 2006 and March 31, 2006, respectively. Among such SPEs, the Company and its subsidiaries provide non-recourse loans to non-consolidated SPEs and hold certain non-consolidated SPE's bond in the aggregate of (Y)12,823 million, (Y)5,072 million and (Y)3,813 million as of September 30, 2005 and 2006 and March 31, 2006, respectively, and/or make investments in these non-consolidated SPE's, which amount to (Y)3,341 million, (Y)9,148 million and (Y)3,581 million as of September 30, 2005 and 2006 and March 31, 2006, respectively. The Company and its subsidiaries' risk exposure is limited to the amounts of the loans, bond and investments referred to above.

Among those SPEs, total assets of consolidation were (Y)17,350 million, (Y)29,477 million and (Y)20,958 million as of September 30, 2005 and 2006 and March 31, 2006, respectively. Those assets are mainly included in investment in operating leases and other assets in the consolidated balance sheets.

The consolidated SPEs borrow from financial institutions, and (Y)11,594 million, (Y)10,248 million and (Y)11,376 million of the SPEs' assets are pledged as collateral for the non-recourse loans as of September 30, 2005 and 2006 and March 31, 2006, respectively. The lenders of the non-recourse loans have no recourse to other assets of the Company and its subsidiaries.

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**(c) SPEs for acquisition of real estate for the Company and its subsidiaries real estate-related business**

The Company and its subsidiaries acquire real estate and establish SPEs to simplify the administration activities necessary for the real estate. The Company and its subsidiaries have always consolidated such SPEs even though the Company and its subsidiaries may not have voting rights since substantially all of such SPEs' subordinated interests are issued to the Company and its subsidiaries, and therefore controlled by and for the benefit of the Company and its subsidiaries.

Total assets of such SPEs are (Y)93,773 million, (Y)92,565 million and (Y)93,585 million as of September 30, 2005 and 2006 and March 31, 2006, respectively. These assets are mainly included in investment in operating leases, other operating assets and other assets in the consolidated balance sheets as of September 30, 2005 and 2006 and March 31, 2006, respectively.

Certain SPEs borrow non-recourse loans from financial institutions, and (Y)10,592 million, (Y)24,679 million and (Y)24,803 million of SPEs assets are pledged as collateral for the non-recourse loans as of September 30, 2005 and 2006 and March 31, 2006, respectively. The lenders of the non-recourse loans have no recourse to other assets of the Company and its subsidiaries.

**(d) SPEs for corporate rehabilitation support business**

Financial institutions, the Company and its subsidiary are involved with SPEs established for the corporate rehabilitation support business. SPEs receive the funds from investors including the financial institutions, the Company and the subsidiary and purchase loan receivables due from borrowers which have financial problems, but deemed to have the potential to recover in the future. The servicing operations for the SPEs are mainly conducted by the subsidiary.

The Company consolidated such SPEs since the Company and the subsidiary have the majority of the investment share of such SPEs.

Total assets of SPEs of consolidation are (Y)29,877 million, (Y)13,367 million and (Y)25,659 million as of September 30, 2005 and 2006 and March 31, 2006, respectively. Those assets are mainly included in installment loans in the consolidated balance sheet as of September 30, 2005 and 2006 and March 31, 2006, respectively.

Certain consolidated SPEs borrow non-recourse loans from financial institutions, and (Y)3,630 million, (Y)3,074 million and (Y)1,725 million of the SPEs' assets are pledged as collateral for the non-recourse loans as of September 30, 2005 and 2006 and March 31, 2006, respectively. The lenders of the non-recourse loans have no recourse to other assets of the Company and its subsidiaries.

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**(e) SPEs for acquisition of loan receivables**

The Company is involved with SPEs established by customers to purchase loan receivables. SPEs receive loan receivables as trust assets from the customers. The servicing operations for the SPEs are mainly conducted by the customers.

The Company consolidated such SPEs since the Company purchased all of beneficial interests of such SPEs.

Total assets of SPEs of consolidation are (Y)145,834 million and (Y)158,787 million as of September 30, 2006 and March 31, 2006. Those assets are mainly included in installment loans in the consolidated balance sheet as of September 30, 2006 and March 31, 2006. The Company was not involved in such SPEs as of September 30, 2005.

**(f) Kumiai structures**

In Japan, certain subsidiaries provide investment products to their customers that employ a contractual mechanism known as a kumiai, which in part result in the subsidiaries forming a type of SPE. As a means to finance the purchase of aircraft or other large-ticket items to be leased to third parties, the Company and its subsidiaries arrange and market kumiai products to investors, who invest a portion of the funds necessary into the kumiai structure. The remainder of the purchase funds are borrowed by the kumiai structure in the form of a non-recourse loan from one or more financial institutions. The kumiai investors (and any lenders to the kumiai structure) retain all of the economic risks and rewards in connection with purchase and leasing activities of the kumiai structure, and all related gains or losses are recorded on the financial statements of investors in the kumiai. The Company and its subsidiaries are responsible for the arrangement and marketing of these products, and may act as servicer or administrator in kumiai transactions. The fee income for the arrangement and administration of these transactions is recognized in the consolidated financial statements. The Company and its subsidiaries do not guarantee or otherwise have any financial commitments or exposure with respect to the kumiai or its related SPE.

The Company has evaluated each of these structures pursuant to Interpretation No. 46(R) and has concluded that although the SPEs that are part of the Kumiai structure are VIEs, the Company and its subsidiaries do not have the primary beneficial interest. As a result, these SPEs are not consolidated by the Company and its subsidiaries.

**Table of Contents****10. Investment in Affiliates**

Investment in affiliates at September 30, 2005 and 2006, and March 31, 2006 consists of the following:

|                               | September 30,<br>2005 | Millions of yen<br>September 30,<br>2006 | March 31,<br>2006 |
|-------------------------------|-----------------------|--|-------------------|
| Common stock, at equity value | 272,000               | 335,995                                  | 308,401           |
| Loans                         | 30,306                | 8,942                                    | 8,372             |
|                               | 302,306               | 344,937                                  | 316,773           |

Combined and condensed information relating to the affiliates accounted for by the equity method for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006 are as follows (some operation data for entities reflect only the period since the Company made the investment and on the lag basis):

|                            | September 30,<br>2005 | Millions of yen<br>September 30,<br>2006 | March 31,<br>2006 |
|----------------------------|-----------------------|--|-------------------|
| <b>Operations:</b>         |                       |  |                   |
| Total revenues             | 742,348               | 1,058,344                                | 1,932,408         |
| Income before income taxes | 76,472                | 94,103                                   | 165,707           |
| Net income                 | 62,893                | 74,405                                   | 142,413           |
| <b>Financial position:</b> |                       |  |                   |
| Total assets               | 7,155,573             | 8,422,434                                | 7,485,439         |
| Total liabilities          | 6,486,025             | 7,454,480                                | 6,822,846         |
| Shareholders' equity       | 669,548               | 967,954                                  | 662,593           |



**Table of Contents****11. Other Operations**

Other operating revenues and other operating expenses for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006 are as follows:

## Other Operating Revenues

|   | <b>The six months<br/>ended<br/>September 30,<br/>2005</b> | <b>Millions of yen<br/>The six months<br/>ended<br/>September 30,<br/>2006</b> | <b>The fiscal year<br/>ended<br/>March 31,<br/>2006</b> |
|---|--|--|---|
| Revenues from integrated facilities management operations   | 16,789   | 15,524   | 34,244  |
| Revenues from the vehicle maintenance and management services contained in automobile lease contract                                  | 19,382   | 20,943   | 41,850  |
| Revenues from commissions for M&A advisory services, financing advice, financial restructuring advisory services and related services | 99   | 22,875   | 8,036   |
| Other   | 50,232   | 68,217   | 115,052   |
| <b>Total</b>  | <b>86,502</b>  | <b>127,559</b>   | <b>199,182</b>  |

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## Other Operating Expenses

|  | The six months<br>ended<br>September 30,<br>2005 | Millions of yen<br>The six months<br>ended<br>September 30,<br>2006 | The fiscal year<br>ended<br>March 31,<br>2006 |
|--|--|---|---|
| Expenses from integrated facilities management operations  | 15,517   | 14,131  | 31,710  |
| Expenses from the vehicle maintenance and management services contained in automobile lease contract | 14,793   | 15,629  | 30,756  |
| Other  | 26,153   | 37,439  | 65,722  |
| <b>Total</b>   | <b>56,463</b>                                    | <b>67,199</b>   | <b>128,188</b>                                |

Other items consist of revenues and expenses from golf courses, training facilities and hotels, operating results from real estate-related businesses, commissions for the sale of insurance and other financial products, revenues and expenses from other operations, of which there were no items exceeding 10% of total other operating revenues and expenses for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006, respectively.

Gains and losses from the disposition of operating facilities included in other operating assets are not significant for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006.

**12. Selling, General and Administrative Expenses**

Selling, general and administrative expenses for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006 are as follows:

|                         | The six months<br>ended<br>September 30,<br>2005 | Millions of yen<br>The six months<br>ended<br>September 30,<br>2006 | The fiscal year<br>ended<br>March 31,<br>2006 |
|-------------------------|--|---|---|
| Personnel expenses      | 42,845   | 65,829  | 95,575  |
| Selling expenses        | 13,699   | 16,440  | 28,316  |
| Administrative expenses | 26,459   | 35,828  | 60,601  |
| Depreciation            | 1,550  | 1,876   | 3,326   |
| <b>Total</b>            | <b>84,553</b>                                    | <b>119,973</b>  | <b>187,818</b>                                |

**Table of Contents****13. Pension Plans**

The Company and certain subsidiaries have contributory and non-contributory funded pension plans covering substantially all of their employees. Those contributory funded pension plans include defined benefit pension plans and defined contribution pension plans. Under the plans, employees are entitled to lump-sum payments at the time of termination of their employment or pension payments. Defined benefit pension plans consist of a plan of which the amounts of such payments are determined on the basis of length of service and remuneration at the time of termination and a cash balance plan.

Certain subsidiaries had tax qualified pension plans in which the benefit was determined on the basis of length of service and remuneration at the time of termination and/or severance indemnity plans. However, during the fiscal year ended March 31, 2006, they amended these plans to the cash balance plan and defined contribution pension plan.

The Company and its subsidiaries' funding policy is to contribute annually the amounts actuarially determined. Assets of the plans are invested primarily in interest-bearing securities and marketable equity securities.

Net pension cost of the plans for the six months ended September 30, 2005 and 2006, and for the fiscal year ended March 31, 2006 consists of the following:

|  | <b>The six months<br/>ended<br/>September 30,</b> | <b>Millions of yen<br/>The six months<br/>ended<br/>September 30,</b> | <b>The fiscal year<br/>ended<br/>March 31,</b> |
|--|---|---|--|
|  | <b>2005</b>                                       | <b>2006</b>   | <b>2006</b>                                    |
| Service cost                                       | 1,509   | 1,301   | 2,912  |
| Interest cost                                      | 587   | 605   | 1,153  |
| Expected return on plan assets                     | (734)   | (962)   | (1,470)  |
| Amortization of unrecognized transition obligation | 2   | 1   | 2  |
| Amortization of unrecognized net actuarial loss    | 592   | 145   | 1,172  |
| Amortization of unrecognized prior service cost    | (520)   | (604)   | (1,091)  |
| Plan curtailments and settlements                  |   |   | (296)  |
| Net periodic pension cost                          | 1,436   | 486   | 2,382  |

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### **14. Write-downs of Long-Lived Assets**

In accordance with FASB Statement No.144 ( Accounting for the Impairment or Disposal of Long-Lived Assets ), the Company and subsidiaries performed tests for recoverability on some assets for which events or changes in circumstances indicated that the assets might be impaired. The Company and subsidiaries consider an asset's carrying amount as not recoverable when such carrying amount exceeds the undiscounted cash flows estimated to result from the use and eventual disposition of the asset. The net carrying value of assets not recoverable is reduced to fair value if lower than the carrying value. We determine fair value based on appraisals prepared by independent third party appraisers or our own staff of appraisers, based on recent transactions involving sales of similar assets, or other valuation techniques to estimate fair value.

For the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006, the Company and certain subsidiaries recognized impairment losses for the difference between long-lived asset carrying value and estimated fair values in the amount of (Y)521 million, (Y)1,318 million and (Y)8,336 million, respectively, which are reflected as write-downs of long lived assets. The losses of (Y)1,300 million were included in the Real Estate segment, and losses of (Y)18 million were included in the Real Estate-Related Finance segment as of September 30, 2006. The details of significant write-downs are as follows.

**Corporate Dormitories** - The Company and a subsidiary are engaged in the business to lease corporate dormitory buildings to corporations in Japan. During the six months ended September 30, 2006, the company has written down one dormitory to the fair market value, due to the decline in occupancy rates. For the six months ended September 30, 2005 and 2006 and the fiscal year ended March 31, 2006, the Company and a subsidiary recognized impairment losses in the amounts of (Y)322 million, (Y)366 million and (Y)504 million, respectively.

**Others** - The Company and its subsidiaries hold the assets including golf courses, office buildings, hotel properties and commercial buildings and condominiums. For the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006, the Company and its subsidiaries recognized impairment losses in the amount of (Y)199 million, (Y)952 million and (Y)7,832 million, respectively.

### **15. Discontinued Operations**

The subsidiary sold a subsidiary in Japan held for undertaking corporate rehabilitation business for the six months ended September 30, 2006. As a result of the sale, the operations of the subsidiary were reclassified to discontinued operations pursuant to the requirements on FASB Statement No.144 ( Accounting for the Impairment or Disposal of Long-Lived Assets ) because the Company and its subsidiaries have no significant continuing involvement in the operations sold. The Company and its subsidiaries earned (Y)171 million of aggregated gains on the sale of the subsidiary.

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The Company and its subsidiaries own various real estate properties, including commercial and office buildings, for rental operations. FASB Statement No.144 requires to reclassify operations related to these real estate sold or to be disposed of by sale to discontinued operations, if the Company and its subsidiaries have no significant continuing involvement in sold properties. For the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006, the Company and its subsidiaries earned (Y)9,063 million, (Y)4,991 million and (Y)13,618 million of aggregated gains on such real estate properties, respectively. In addition, the Company and its subsidiaries determined to dispose of by sale properties for rental without significant continuing involvement in those properties of (Y)2,670 million, (Y)12,366 million and (Y)30,364 million which are mainly included in the investment in operating leases in the accompanying consolidated balance sheets at September 30, 2005 and 2006, and March 31, 2006.

Under this Statement, the Company and its subsidiaries report the gains on sales and the results of these operations of the subsidiaries and the business units sold and the gains on sales, rental revenues generated and other expenses incurred by the operations of rental properties, which have been sold and to be disposed of, as income from discontinued operations in the accompanying consolidated statements of income. Income and expenses generated by the operations of the subsidiaries, the business units and these properties recognized for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006 have also been reclassified as income from discontinued operations in each year in the accompanying consolidated statements of income.

Discontinued operations for the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006 consist of the following:

|  | <b>The six months</b> | <b>Millions of yen</b><br><b>The six months</b> | <b>The fiscal year</b> |
|--|-----------------------|---|------------------------|
|  | <b>ended</b>          | <b>ended</b>                                    | <b>ended</b>           |
|  | <b>September 30,</b>  | <b>September 30,</b>                            | <b>March 31,</b>       |
|  | <b>2005</b>           | <b>2006</b>                                     | <b>2006</b>            |
| Revenues   | 22,468                | 6,969   | 83,572                 |
| Income before income tax from discontinued operations, net | 10,515                | 5,510   | 26,328                 |
| Provision for income taxes                                 | (4,242)               | (2,285)   | (10,323)               |
| Discontinued operations, net of applicable tax effect      | 6,273                 | 3,225   | 16,005                 |

**Table of Contents****16. Per Share Data**

Reconciliation of the differences between basic and diluted earnings per share (EPS) in the six months ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006 is as follows:

|   | Millions of yen                               |   | The fiscal year ended<br>March 31,<br>2006 |
|---|---|---|--|
|   | The six months ended<br>September 30,<br>2005 | The six months ended<br>September 30,<br>2006 |  |
| Income from continuing operations                             | 77,681  | 87,528  | 150,383                                    |
| Effect of dilutive securities                                 |   |   |  |
| Convertible notes   | 703   | 835   | 1,525                                      |
| Income from continuing operations for diluted EPS computation | 78,384  | 88,363  | 151,908                                    |

|   | Thousands of shares                           |   | The fiscal year ended<br>March 31,<br>2006 |
|---|---|---|--|
|   | The six months ended<br>September 30,<br>2005 | The six months ended<br>September 30,<br>2006 |  |
| Weighted- average shares                            | 87,647  | 90,039  | 88,322                                     |
| Effect of dilutive securities                       |   |   |  |
| Warrants  | 574   | 810   | 833  |
| Convertible notes                                   | 4,955   | 3,298   | 4,496                                      |
| Treasury stock                                      | 66  | 113   | 139  |
| Weighted-average shares for diluted EPS computation | 93,242  | 94,260  | 93,790                                     |

|   | Yen   |   | The fiscal year ended<br>March 31,<br>2006 |
|---|---|---|--|
|   | The six months ended<br>September 30,<br>2005 | The six months ended<br>September 30,<br>2006 |  |
| Earnings per share for income from continuing operations: |   |   |  |
| Basic   | 886.30  | 972.11  | 1,702.68                                   |
| Diluted   | 840.65  | 937.44  | 1,619.66                                   |

Shareholders' equity per share at September 30, 2005 and 2006, and March 31, 2006 is as follows.

|                                | Yen                   |                       | March 31,<br>2006 |
|--------------------------------|-----------------------|-----------------------|-------------------|
|                                | September 30,<br>2005 | September 30,<br>2006 |                   |
| Shareholders' equity per share | 9,333.32              | 11,470.78             | 10,608.97         |



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**17. Derivative Financial Instruments and Hedging**

**(a) Risk management policy**

The Company and its subsidiaries manage interest rate risk through asset liability management systems. The Company and its subsidiaries use derivative financial instruments to hedge interest rate risk and avoid changes in interest rates having a significant adverse effect. As a result of interest rate fluctuations, the fair value of hedged assets and liabilities will appreciate or depreciate. However, such appreciation or depreciation will generally be offset by using derivative financial instruments as hedging instruments. Derivative financial instruments that the Company and its subsidiaries use as part of the interest risk management include interest rate swaps and interest rate caps.

The Company and its subsidiaries employ foreign currency borrowings, foreign exchange forward contracts, and foreign currency swap agreements to hedge risks that are associated with certain transactions and investments denominated in foreign currencies due to the potential for changes in exchange rates. Similarly, in general, overseas subsidiaries structure their liabilities to match the currency-denomination of assets in each region.

By using derivative instruments, the Company and its subsidiaries are exposed to credit risk in the event of nonperformance by counterparties. The Company and its subsidiaries attempt to manage the credit risk by carefully evaluating the quality of counterparties in advance and regularly monitoring counterparties and derivative transactions after contracts have been concluded.

**(b) Cash flow hedges**

The Company and its subsidiaries designate interest rate swap agreements, foreign currency swap agreements and foreign exchange forward contracts as cash flow hedges for variability of cash flows originating from floating rate borrowings and forecasted transactions.

**(c) Fair value hedges**

The Company and its subsidiaries use financial derivative instruments designated as fair value hedges to hedge their exposure to interest rate risk and foreign currency exchange risk. The Company and its subsidiaries designate foreign currency swap agreements and foreign exchange forward contracts to minimize foreign currency exposures on operating assets including lease receivables, loan receivables and borrowings. Certain subsidiaries, which issued medium-term notes with fixed interest rates, use interest rate swap contracts to hedge interest rate exposure of the fair values of these medium-term notes. In cases where the medium-term notes were denominated in other than the subsidiaries' local currency, foreign currency swap agreements are used to hedge foreign exchange rate exposure.



**Table of Contents****(d) Hedges of net investment in foreign operations**

The Company uses foreign exchange forward contracts and borrowings denominated in the subsidiaries' local currencies to hedge the foreign currency exposure of the net investment in foreign subsidiaries.

**(e) Trading and other derivatives**

Certain subsidiaries engage in trading activities with various future contracts. The Company and certain subsidiaries entered into interest rate swap agreements, caps and foreign exchange forward contracts for risk management purposes but not qualified for hedge accounting under FASB Statement No. 133.

The following table provides notional amount, carrying amount and estimated fair value information about derivative financial instruments as of September 30, 2005 and 2006, and March 31, 2006. The notional amounts of derivatives do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure to market risk or credit risk.

As of September 30, 2005

|                                    | Notional<br>amount | Millions of yen    |                         |
|------------------------------------|--------------------|--------------------|-------------------------|
|                                    |                    | Carrying<br>amount | Estimated<br>fair value |
| Interest rate risk management:     |                    |                    |                         |
| Interest rate swap agreements      | 337,590            | 268                | 268                     |
| Caps held                          | 32,731             | 4                  | 4                       |
| Foreign exchange risk management:  |                    |                    |                         |
| Foreign exchange forward contracts | 148,035            | (608)              | (608)                   |
| Futures                            | 135                | 4                  | 4                       |
| Foreign currency swap agreements   | 143,739            | (4,227)            | (4,227)                 |
| Trading activities:                |                    |                    |                         |
| Futures                            | 136,162            | 430                | 430                     |
| Options held                       | 1,302              | 4                  | 4                       |
| Options written                    | 1,771              | (102)              | (102)                   |
| Foreign exchange forward contracts | 9,739              | 5                  | 5                       |

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As of September 30, 2006

|                                    | Millions of yen |                 |                      |
|------------------------------------|-----------------|-----------------|----------------------|
|                                    | Notional amount | Carrying amount | Estimated fair value |
| Interest rate risk management:     |                 |                 |                      |
| Interest rate swap agreements      | 357,560         | 2,387           | 2,387                |
| Caps held                          | 13,773          |                 |                      |
| Foreign exchange risk management:  |                 |                 |                      |
| Foreign exchange forward contracts | 150,934         | 107             | 107                  |
| Futures                            | 303             | 1               | 1                    |
| Foreign currency swap agreements   | 105,383         | (4,987)         | (4,987)              |
| Trading activities:                |                 |                 |                      |
| Futures                            | 522,098         | 465             | 465                  |
| Options held                       | 2,637           | 64              | 64                   |
| Options written                    | 2,458           | (28)            | (28)                 |
| Foreign exchange forward contracts | 21,620          | (2)             | (2)                  |

As of March 31, 2006

|                                    | Millions of yen |                 |                      |
|------------------------------------|-----------------|-----------------|----------------------|
|                                    | Notional amount | Carrying amount | Estimated fair value |
| Interest rate risk management:     |                 |                 |                      |
| Interest rate swap agreements      | 367,234         | 5,584           | 5,584                |
| Options and caps held              | 13,739          | 1               | 1                    |
| Foreign exchange risk management:  |                 |                 |                      |
| Foreign exchange forward contracts | 141,391         | 1,223           | 1,223                |
| Futures                            |                 |                 |                      |
| Foreign currency swap agreements   | 138,473         | (5,141)         | (5,141)              |
| Trading activities:                |                 |                 |                      |
| Futures                            | 292,102         | 620             | 620                  |
| Options and caps held              | 1,610           | 37              | 37                   |
| Options and caps written           | 1,586           | (64)            | (64)                 |
| Foreign exchange forward contracts | 20,162          | 17              | 17                   |

Note: Positive numbers indicate debits and negative numbers indicate credits.

**Table of Contents****18. Commitments, Guarantees, and Contingent Liabilities**

**Commitments** - The Company and its subsidiaries had commitments for the purchase of equipment to be leased, having a cost of (Y)12,229 million, (Y)17,623 million and (Y)18,006 million as of September 30, 2005 and 2006, and March 31, 2006, respectively.

The minimum future rentals on non-cancelable operating leases are as follows:

|                    | September 30,<br>2005 | Millions of yen<br>September 30,<br>2006 | March 31,<br>2006 |
|--------------------|-----------------------|--|-------------------|
| Within one year    | 1,310                 | 2,953                                    | 2,208             |
| More than one year | 6,052                 | 13,405                                   | 11,760            |
| <b>Total</b>       | <b>7,362</b>          | <b>16,358</b>                            | <b>13,968</b>     |

The Company and its subsidiaries lease office space under operating lease agreements, which are primarily cancelable, and made rental payments totaling (Y)4,017 million, (Y)3,850 million and (Y)8,555 million for the six months ended September 30, 2005 and 2006, and for the fiscal year ended March 31, 2006, respectively.

Certain computer systems of the Company and its subsidiaries have been operated and maintained under non-cancelable contracts with third-party service providers. For such services, the Company and its subsidiaries made payments totaling (Y)1,326 million, (Y)1,572 million and (Y)2,848 million for the six months ended September 30, 2005 and 2006, and for the fiscal year ended March 31, 2006, respectively. At September 30, 2005 and 2006, and March 31, 2006, the amounts due are as follows:

|                    | September 30,<br>2005 | Millions of yen<br>September 30,<br>2006 | March 31,<br>2006 |
|--------------------|-----------------------|--|-------------------|
| Within one year    | 3,103                 | 2,771                                    | 3,103             |
| More than one year | 5,617                 | 2,973                                    | 4,065             |
| <b>Total</b>       | <b>8,720</b>          | <b>5,744</b>                             | <b>7,168</b>      |

The Company and its subsidiaries have commitments to fund estimated construction costs to complete ongoing real estate development projects and other commitments, amounting in total to (Y)213,156 million, (Y)215,379 million and (Y)201,944 million as of September 30, 2005 and 2006, and March 31, 2006, respectively.

The Company and its subsidiaries have agreements under which they are committed to execute loans as long as the agreed-upon terms are met such as card loans. The total unused credit amount available is (Y)209,062 million, (Y)336,864 million and (Y)294,837 million as of September 30, 2005 and 2006, and March 31, 2006, respectively.

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**Guarantees** - The Company and its subsidiaries adopted FASB Interpretation No. 45 ( Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ), and at the inception of a guarantee, recognized a liability in the consolidated balance sheets for the fair value of the guarantees within the scope of FASB Interpretation No. 45 issued or amended on and after January 1, 2003. The following table represents the summary of guarantees recorded as guarantee liabilities as of September 30, 2005 and 2006, and March 31, 2006 and potential future payments of the guarantee contracts outstanding:

As of September 30, 2005

| Guarantees      | Millions of yen          |                                     |
|-----------------|--------------------------|-------------------------------------|
|                 | Potential future payment | Book value of guarantee liabilities |
| Housing loans   | 35,868                   | 8,002                               |
| Consumer loans  | 21,702                   | 2,206                               |
| Corporate loans | 141,274                  | 8,210                               |
| Other           | 811                      |                                     |
| <b>Total</b>    | <b>199,655</b>           | <b>18,418</b>                       |

As of September 30, 2006

| Guarantees      | Millions of yen          |                                     |
|-----------------|--------------------------|-------------------------------------|
|                 | Potential future payment | Book value of guarantee liabilities |
| Housing loans   | 30,827                   | 4,819                               |
| Consumer loans  | 21,660                   | 2,171                               |
| Corporate loans | 273,260                  | 8,136                               |
| Other           | 552                      | 13                                  |
| <b>Total</b>    | <b>326,299</b>           | <b>15,139</b>                       |

As of March 31, 2006

| Guarantees      | Millions of yen          |                                     |
|-----------------|--------------------------|-------------------------------------|
|                 | Potential future payment | Book value of guarantee liabilities |
| Housing loans   | 32,789                   | 5,336                               |
| Consumer loans  | 21,104                   | 2,138                               |
| Corporate loans | 192,562                  | 5,146                               |
| Other           | 606                      |                                     |
| <b>Total</b>    | <b>247,061</b>           | <b>12,620</b>                       |

**Guarantee of housing loans** : The Company and certain subsidiaries guarantee the housing loans issued by Japanese financial institutions to third party individuals. The Company and its subsidiaries are typically obliged to pay the outstanding loans when these loans become delinquent more than three months. The housing loans are usually secured by real properties. Once the Company and its subsidiaries assume the guaranteed parties obligation, the Company and its subsidiaries acquire the right of the collateral.

**Guarantee of consumer loans** : A subsidiary guarantees the consumer loans, typically card loans, issued by Japanese financial institutions. The subsidiary is obliged to pay the outstanding obligations when these loans become delinquent generally for more than three months.

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**Guarantee of corporate loans :** The Company and certain subsidiaries guarantee corporate loans issued by financial institutions for the Company and its subsidiaries' customers and unrelated third parties. The Company and its subsidiaries are obliged to pay the outstanding loans when the guaranteed parties fail to pay principal and/or interest in accordance with the contract terms. In some cases, the corporate loans are secured by the guaranteed parties' operating assets. Once the Company and its subsidiaries assume the guaranteed parties' obligation, the Company and its subsidiaries acquire the right of the collateral. In other cases, certain contracts that guarantee corporate loans issued by financial institutions for unrelated third parties include contracts that the amounts of performance guarantee are limited to a range of guarantee commissions, if certain conditions are met. As of September 30, 2005 and 2006, and March 31, 2006, total amounts of such guarantee and book value of guarantee liabilities which amounts included in the table above are (Y)320,700 million, (Y)745,200 million, (Y)620,700 million and (Y)5,142 million, (Y)5,307 million, (Y)3,080 million, respectively.

**Other guarantees :** Other guarantees include the guarantees derived from collection agency agreements. Pursuant to the agreements, the Company collects third parties' debt and pays the uncovered amounts.

**Litigation** The Company and its subsidiaries are involved in legal proceedings and claims in the ordinary course of their business. In the opinion of management, none of such proceedings and claims will have a significant impact on the Company's financial position or results of operations.

**Collateral** In addition to the assets held by SPEs described in Note 9. Business Transactions with Special Purpose Entities' own, the short-term and long-term debt payable to financial institutions are secured by the following assets as of September 30, 2005 and 2006, and March 31, 2006:

|   | September 30,<br>2005 | Millions of yen<br>September 30,<br>2006 | March 31,<br>2006 |
|---|-----------------------|--|-------------------|
| Minimum lease payments, loans and future rentals  | 45,195                | 44,210                                   | 45,118            |
| Investment in securities *                        | 98,629                | 101,710                                  | 116,385           |
| Other operating assets and office facilities, net | 4,737                 | 13,024                                   | 4,085             |
| Total   | 148,561               | 158,944                                  | 165,588           |

\* Including investment in securities with repurchase agreements of (Y)80,641 million, (Y)75,353 million and (Y)83,753 million for September 30, 2005 and 2006, and March 31, 2006, respectively.

In addition, the payables of (Y)49,565 million, (Y)291,609 million and (Y)106,333 million as of September 30, 2005 and 2006, and March 31, 2006, respectively, under lease receivable and loan securitization programs that are not accounted for as sales are included in long-term debt. The collateral under these securitization programs of (Y)79,294 million, (Y)387,377 million and (Y)193,583 million are included in investment in direct financing leases and installment loans, and cash collateral of (Y)2,446 million, (Y)10,061 million and (Y)2,888 million are included in other assets, in the consolidated balance sheets as of September 30, 2005 and 2006, and March 31, 2006, respectively.

As of September 30, 2005 and 2006, and March 31, 2006, securities and other assets of (Y)5,192 million, (Y)6,837 million and (Y)5,808 million, respectively, were pledged for collateral security deposits.

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As of September 30, 2005 and 2006, and March 31, 2006, a subsidiary pledged borrowed bonds through security lending transactions with the fair values of (Y)21,855 million, (Y)26,254 million and (Y)21,408 million, respectively, for collateral security deposits.

Under agreements with customers on brokerage business, a subsidiary received customers' securities with an approximate value of (Y)68,588 million, (Y)75,544 million and (Y)109,092 million as of September 30, 2005 and 2006, and March 31, 2006, respectively, that may be sold or repledged by the subsidiary. As of September 30, 2005 and 2006, and March 31, 2006, (Y)41,950 million, (Y)55,162 million and (Y)80,596 million at market value of the securities are repledged as collateral for the short-term debt, respectively.

Loan agreements relating to short-term and long-term debt from commercial banks and certain insurance companies provide that minimum lease payments and installment loans are subject to pledges as collateral against these debts at any time if requested by the lenders. To date, the Company has not received any such requests from the lenders.

**19. Segment Information**

The following table presents segment financial information on the basis that is regularly used by management for evaluating segment performance and deciding how to allocate resources. The reportable segments are mainly identified based on the nature of services for operations in Japan and on the basis of geographic area for overseas operations. With respect to the Corporate Financial Services segment and Real Estate-Related Finance segment, the Company and its subsidiaries aggregate some operating segments that are determined by region and type of operating assets for management purposes because they are similar in the nature of the services, the type of customers and the economic environment.

The Corporate Financial Services segment comprises primarily corporate direct financing leases and installment loans to corporate customers. The Automobile Operations segment comprises automobile leasing and automobile rental operations. The Rental Operations segment comprises operating leases for precision measuring equipment, personal computers and other equipment. The Real Estate-Related Finance segment includes corporate real estate financing activities as well as personal housing loan lending operations. The Real Estate segment primarily comprises residential subdivision developments, office buildings development and sales as well as the rental and management of office buildings, hotels, employee dormitories and training facilities. The Life Insurance segment includes direct and agency life insurance sales and related activities. The two overseas operating segments, The Americas and Asia, Oceania and Europe segments, include direct financing lease operations, investment in debt securities, collateralized real estate lending, investment banking and aircraft and ship financing operations. The Other segment, which is not deemed by management to be sufficiently significant to disclose as separate items and do not fall into the above segment categories, is reported under operations in Japan and primarily includes securities brokerage, venture capital, card loans and corporate rehabilitation business. Most of selling, general and administrative expenses, including compensation costs that are directly related to the revenue generating activities of each segment, have been accumulated by and charged to each segment.

From the fiscal year ended March 31, 2006, the presentation of revenues and costs associated with re-leasing as well as vehicle maintenance and management services were changed and consequently, the consolidated income statements for the six months ended September 30, 2005 were reclassified retroactively. In order to conform to these reclassifications, revenues of the Corporate Financial Services segment and Automobile Operations segment were reclassified retroactively, but there was no effect on previously reported segment profits.

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Financial information of the segments for the six months ended September 30, 2005 and 2006, and for the fiscal year ended March 31, 2006 is as follows:

For the six months ended September 30, 2005

|                | Millions of yen                    |                          |                      |                     |                |                   |         |   |         |           |       |
|----------------|------------------------------------|--------------------------|----------------------|---------------------|----------------|-------------------|---------|---|---------|-----------|-------|
|                | Operations in Japan<br>Real Estate |                          |                      |                     |                |                   |         | Overseas<br>operations<br>Asia,<br>Oceania<br>and |         |           | Total |
|                | Corporate<br>Financial<br>Services | Automobile<br>Operations | Rental<br>Operations | -Related<br>Finance | Real<br>Estate | Life<br>Insurance | Other   | The<br>Americas                                   | Europe  |           |       |
| Revenues       | 48,748                             | 63,869                   | 33,638               | 34,865              | 98,018         | 68,178            | 49,919  | 26,493  | 43,834  | 467,562   |       |
| Segment profit | 23,824                             | 13,425                   | 5,292                | 20,318              | 20,562         | 7,753             | 16,259  | 14,070  | 19,747  | 141,250   |       |
| Segment assets | 1,602,587                          | 489,313                  | 116,982              | 961,049             | 520,730        | 521,022           | 519,727 | 398,936   | 527,255 | 5,657,601 |       |

For the six months ended September 30, 2006

|                | Millions of yen                    |                          |                      |                     |                |                   |         |   |         |           |       |
|----------------|------------------------------------|--------------------------|----------------------|---------------------|----------------|-------------------|---------|---|---------|-----------|-------|
|                | Operations in Japan<br>Real Estate |                          |                      |                     |                |                   |         | Overseas<br>operations<br>Asia,<br>Oceania<br>and |         |           | Total |
|                | Corporate<br>Financial<br>Services | Automobile<br>Operations | Rental<br>Operations | -Related<br>Finance | Real<br>Estate | Life<br>Insurance | Other   | The<br>Americas                                   | Europe  |           |       |
| Revenues       | 57,945                             | 72,016                   | 32,412               | 38,222              | 142,129        | 63,488            | 56,928  | 56,360  | 47,222  | 566,722   |       |
| Segment profit | 28,734                             | 13,386                   | 3,897                | 21,021              | 31,129         | 3,379             | 19,232  | 17,922  | 17,926  | 156,626   |       |
| Segment assets | 1,799,827                          | 548,513                  | 124,363              | 1,328,367           | 768,622        | 508,409           | 699,105 | 470,165   | 624,898 | 6,872,269 |       |

For the fiscal year ended March 31, 2006

|                | Millions of yen                    |                          |                      |                     |                |                   |         |   |         |           |       |
|----------------|------------------------------------|--------------------------|----------------------|---------------------|----------------|-------------------|---------|---|---------|-----------|-------|
|                | Operations in Japan<br>Real Estate |                          |                      |                     |                |                   |         | Overseas<br>operations<br>Asia,<br>Oceania<br>and |         |           | Total |
|                | Corporate<br>Financial<br>Services | Automobile<br>Operations | Rental<br>Operations | -Related<br>Finance | Real<br>Estate | Life<br>Insurance | Other   | The<br>Americas                                   | Europe  |           |       |
| Revenues       | 97,683                             | 130,775                  | 67,066               | 69,472              | 198,780        | 137,468           | 111,854 | 70,223  | 88,914  | 972,235   |       |
| Segment profit | 48,661                             | 26,661                   | 9,911                | 33,384              | 28,650         | 13,212            | 41,657  | 34,701  | 31,956  | 268,793   |       |
| Segment assets | 1,616,574                          | 509,149                  | 123,532              | 1,223,063           | 682,166        | 491,857           | 668,689 | 441,285   | 562,654 | 6,318,969 |       |

Segment figures reported in these tables include operations classified as discontinued operations in the accompanying consolidated statements of income.

The accounting policies of the segments are almost the same as those described in Note 2 ( Significant Accounting and Reporting Policies ) except for the treatment of income tax expenses. Since the Company and its subsidiaries evaluate performance for the segments based on profit or loss before income taxes, tax expenses are not included in segment profit or loss. Minority interests in earnings of subsidiaries and discontinued operations, which are recognized net of tax, are adjusted to profit or loss before income tax. Gains and losses that management does not consider for evaluating the performance of the segments, such as write-downs of certain securities, certain foreign exchange gains or losses and write-downs of certain long-lived assets, are excluded from the segment profit or loss and are regarded as corporate items.

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Assets attributed to each segment are consolidated operating assets (investment in direct financing leases, installment loans, investment in operating leases, investment in securities and other operating assets), inventories, advances for investment in operating leases (included in other assets) and investment in affiliates (not including loans). This has resulted in the depreciation of office facilities being included in each segment's profit or loss while the carrying amounts of corresponding assets are not allocated to each segment's assets. However, the effect resulting from this allocation is not significant.



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The reconciliation of segment totals to consolidated financial statement amounts is as follows. Significant items to be reconciled are segment revenues, segment profit and segment assets.

|   | The six months<br>ended<br>September 30,<br>2005 | Millions of yen<br>The six months<br>ended<br>September 30,<br>2006 | The fiscal year<br>ended<br>March 31,<br>2006 |
|---|--|---|---|
| <b>Segment revenues:</b>  |  |   |   |
| Total revenues for segments   | 467,562  | 566,722   | 972,235                                       |
| Revenue related to corporate assets   | 2,635  | (1,224)   | 14,399  |
| Revenue from discontinued operations  | (22,468)   | (6,969)   | (44,762)                                      |
| <b>Total consolidated revenues</b>  | <b>447,729</b>                                   | <b>558,529</b>  | <b>941,872</b>                                |
| <b>Segment profit:</b>  |  |   |   |
| Total profit for segments   | 141,250  | 156,626   | 268,793                                       |
| Corporate interest expenses, general and administrative expenses  | (2,939)  | (209)   | (5,882)                                       |
| Corporate write-downs of securities   | (64)   | (227)   | (64)  |
| Corporate write-downs of long-lived assets  |  |   | (5,038)                                       |
| Corporate other gain or loss  | 4,047  | (1,093)   | 16,090  |
| Discontinued operations   | (10,515)   | (5,510)   | (26,328)                                      |
| Minority Interests in Earnings of Subsidiaries  | 975  | 1,747   | 3,245   |
| <b>Income before Income Taxes, Minority Interests in Earnings of Subsidiaries,<br/>Discontinued Operations and Extraordinary Gain</b> | <b>132,754</b>                                   | <b>151,334</b>  | <b>250,816</b>                                |
| <b>Segment assets:</b>  |  |   |   |
| Total assets for segments   | 5,657,601  | 6,872,269   | 6,318,969                                     |
| Cash and cash equivalents, restricted cash and time deposits  | 253,024  | 252,801   | 424,262                                       |
| Allowance for doubtful receivables on direct financing leases and probable loan losses  | (103,028)  | (89,824)  | (97,002)                                      |
| Other receivables   | 142,895  | 180,424   | 165,657                                       |
| Other corporate assets  | 382,563  | 418,245   | 430,569                                       |
| <b>Total consolidated assets</b>  | <b>6,333,055</b>                                 | <b>7,633,915</b>  | <b>7,242,455</b>                              |

FASB Statement No. 131 ( Disclosure about Segments of an Enterprise and Related Information ) requires disclosure of revenues from external customers for each product and service as enterprise-wide information. The consolidated statements of income in which the revenues are categorized based on the nature of the types of business conducted include the required information. No single customer accounted for 10% or more of the total revenues for the six months ended September 30, 2005 and 2006, and for the fiscal year ended March 31, 2006.

FASB Statement No. 131 also requires disclosure of information about geographic areas as enterprise-wide information. Since each segment is identified based on the nature of services for operations in Japan and on the basis of geographic area for overseas operations, the information required is incorporated into the table. Japan and the United States of America are the countries whose revenues from external customers are significant. Almost all the revenues of The Americas segment are derived from the United States of America. The basis for attributing revenues from external customers to individual countries is principally the location of the overseas subsidiaries and affiliates.

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For the six months ended September 30, 2005 and 2006 and for the fiscal year ended March 31, 2006 revenues from overseas customers are as follows.

For the six months ended September 30, 2005

|     |   | Millions of yen<br>Asia, Oceania |            |         |
|-----|---|----------------------------------|------------|---------|
|     |   | The America                      | and Europe | Total   |
| I   | Overseas revenue  | 18,201                           | 45,105     | 63,306  |
| II  | Consolidated revenue                                      |                                  |            | 447,729 |
| III | The rate of the overseas revenues to consolidated revenue | 4.0%                             | 10.1%      | 14.1%   |

For the six months ended September 30, 2006

|     |   | Millions of yen<br>Asia, Oceania |            |         |
|-----|---|----------------------------------|------------|---------|
|     |   | The America                      | and Europe | Total   |
| I   | Overseas revenue  | 55,465                           | 49,832     | 105,297 |
| II  | Consolidated revenue                                      |                                  |            | 558,529 |
| III | The rate of the overseas revenues to consolidated revenue | 9.9%                             | 8.9%       | 18.8%   |

For the fiscal year ended March 31, 2006

|     |   | Millions of yen<br>Asia, Oceania |            |         |
|-----|---|----------------------------------|------------|---------|
|     |   | The America                      | and Europe | Total   |
| I   | Overseas revenue  | 47,688                           | 90,234     | 137,922 |
| II  | Consolidated revenue                                      |                                  |            | 941,872 |
| III | The rate of the overseas revenues to consolidated revenue | 5.0%                             | 9.6%       | 14.6%   |