To Our Shareholders—A Message from CEO Yoshihiko Miyauchi

Navigating Changing Markets
and the Way Forward

During fiscal 2009 the global financial crisis triggered a seizure in capital markets and a sharp contraction in available credit, greatly affecting the Group’s operating environment and resulting performance. The fragility of global financial markets has been exposed and only companies capable of adapting to the evolving environment will have a chance of surviving.

The major challenge we face here at ORIX in the fiscal year ahead is how best to move forward within the present economic climate. Our primary focus will be on consolidating the corporate framework and realigning operations, while securing a stable financial foundation and maintaining strong asset valuations so as to be able to enhance earnings potential. We sincerely believe that in the process of overcoming the challenges faced, we can forge a unique business model afresh capitalizing on group-wide expertise and capabilities.

Looking to the medium- to long-term, we will cultivate the following three distinct business pillars without expanding on present asset levels, “Finance,” “Finance + Services” and “Services.” This will help fortify ORIX’s ability to continue contributing both economically and socially to society and the business community at large, and at the same time find an appropriate median between stability and growth.

Overview of Fiscal 2009

Operating Environment

The U.S. sub-prime loan issue rapidly escalated into a global financial crisis adversely impacting the real economies of many nations, with the contraction in credit and drop in demand accelerating markedly after the collapse of Lehman Brothers. In Japan, a sharp fall in the Nikkei average coupled with the seizing up of financial and capital markets severely affected corporate activities. Not only did the number of listed company bankruptcies reach a record high in 2008, but the severity of the credit crunch also resulted in the failure of companies that had been profitable in the previous fiscal year. The crisis has marked an end to the finance-driven growth model, particularly prevalent in the U.S., and the global economic landscape is presently undergoing a seismic shift. As for how this is affecting Japan, the manufacturing-centered export-driven industrial structure, traditionally the engine of Japanese economic growth, has been shaken to its core.

2008 thus marked the beginning of a dramatic shift in social and economic systems and the overturning of conventional wisdom. In the past, the real and financial economies had always managed to maintain an equilibrium. However, the recent phenomenon of excessive, one-sided expansion in financial markets alone has consequently resulted in a violent, but most necessary, correction of reality. As for how things will evolve from here, we do not believe that the world and its economy will revert to the previous zeitgeist, but instead will witness the dawning of a new paradigm. As with everything in nature, balance will be eventually found. However, we will continue to face highly unpredictable conditions for the foreseeable future.

As we continue to traverse the maelstrom of the economic crisis, the tumultuous changes in financial markets continue to have a major impact on Japan and the rest of the global economy. In response, and against the backdrop of the ensuing credit crunch, we fully implemented our revised strategy emphasizing financial stability and cautious risk management founded upon...
stringent control of the balance sheet, conclusively replacing
our original growth strategy of targeting increased earnings
through balance-sheet expansion, a strategy that had
supported our strong performance in recent years.
Fiscal 2009 was certainly a year unlike any other in the
company’s history.

Performance Review
The business year saw us having to directly confront
numerous management issues and related risks resulting from
steep falls in asset values and a deterioration in corporate
earnings, particularly from the autumn of 2008, resulting in substantially higher equity-method investment losses, impairment
losses and provisions. Unfortunately, net income declined 87% year on year to ¥21.9 billion, although we believe in light of the
overriding conditions it is a worthy achievement to have maintained profitability.

Medium- to Long-Term Business Strategy
Maximization of the Group's Solid Operating Infrastructure and Client Networks
Providing finance and services to Japan's small and medium-sized enterprises (SMEs)
and developing solutions-orientated businesses will remain an integral part of the ORIX
Group's business platform.
The pursuit of excessive leverage and transactions divorced from market logic were certainly prominent factors leading to the
current crisis. From now on, we believe the preeminence of leveraged financial products will be displaced with greater priority
given to client-to-client, as opposed to market-derived, transactions. Aside from a limited portion in the United States and Japan,
the majority of ORIX's earnings are derived from direct business arrangements with clients. The major advantage of this is that, in
contrast with the susceptibility of the market-focused operations of investment banks and other financial institutions overseas, we
can proactively control risk with minimal impact from uncontrollable movement in the markets. This approach also allows us to
simultaneously offer financial products and management support that meet clients' specific needs, in addition to opportunities to
execute cross-sells.

Our domestic corporate clients span all sectors of the economy, from those primarily relying on domestic demand, for example
real estate, retailing and transportation, through to export-orientated manufacturers within the auto and electronics industries.
Many clients are also involved in so-called 21st century business fields such as the environmental and ICT sectors.
ORIX's core business has not, and will not change. Capitalizing on the operating infrastructure and client networks that we
have built and nurtured throughout the years, we will continue to develop and offer optimal solutions that meet the diversifying
needs of our clients.
We have reorganized the Corporate Financial Services segment’s operations to focus on the promotion of fee-generating businesses. We have integrated the three regional headquarters into a single headquarters, establishing independent units centered on Eastern Japan and Western Japan, and also established specialist business units including one specifically focusing on environmental services.

**Real Estate-Related Business Expertise**

ORIX’s numerous real estate-related businesses have amassed a wide cross-spectrum of expertise combining finance capabilities with a diverse property portfolio. Our aim is to maintain stability and a high-margin model while executing stringent control over the asset base.

The strength of ORIX’s real estate business is derived from the possession of finance capabilities alongside a diverse property profile, a premier rated servicing business and finally, asset management function including a REIT. This unique synergy assists us in enhancing our control of risk and at the same time our competitive advantage in terms of valuing real estate as a financial product and executing transactions. Through minimal involvement in depressed sectors, we target profitability by focusing on those areas of the property sector that are more stable.

Control of asset levels, while pursuing stability and a high-margin model continues to be the focus. In place of targeting growth through expansion of the asset base as in the past, we will look to expand asset management operations and, while keeping the total asset balance at an appropriate level, shift to those assets generating higher yields.

**The Next Step**

Over the years, ORIX has continuously diversified into numerous business domains, constantly refining its specialized finance and asset management capabilities. We have accumulated considerable expertise combining finance with value-added fee-generating services, particularly in the areas of property management, maintenance leasing and other group-specific operations. As a small example of this unique capability, what initially started out as a simple aircraft leasing operation based in Ireland (ORIX Aviation Systems Limited) has evolved into an industry-wide acknowledged company offering specialist services such as aircraft maintenance, repair and fleet management realizing steady returns.

In response to the current crisis, and since we are expecting business conditions to remain challenging for the foreseeable future, we will be taking this opportunity to realign the Group’s operations into a new framework. At the same time we will
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- “Finance” - targeting SMEs, continue developing services centered on leasing and finance. Utilizing the Group’s solid operating infrastructure and client networks, pursue stability with balanced risk and return particularly under the present turmoil in credit markets
- “Finance + Services” - integrate group-wide finance capabilities with the promotion of value-added fee-generating services to augment present revenue streams. Specific areas of focus will be maintenance leases, asset management and maintenance operations for aircraft and IT-related equipment, and property development and rental operations incorporating office buildings, commercial facilities and logistics centers

(Case study) Automobile Management Outsourcing Framework

- “Services” - offer specialized services meeting clients’ specific needs in areas such as senior residence management, hotels, golf courses, training facilities, and M&A advisory services

ORIX Golf Management
Ise Ohtori Course (Tsu, Mie Prefecture)
OGM has expanded nationwide, mainly in the Tokyo metropolitan area, Chubu and Kansai regions, and now includes a total of 36 golf courses and two driving ranges. OGM offers a wide range of courses to its members and aims to become the preferred company for golfers in Japan.

Good Time Living
Yokohama Tsuzuki
(Yokohama, Kanagawa Prefecture)
ORIX Living Corporation provides nursing and medical care services under the “Good Time Living” brand, and senior rental housing under the “Platesia” brand. With 14 locations, 16 facilities and 1,337 rooms mainly in the Tokyo metropolitan and Kansai areas, ORIX provides “safe and active” senior lifestyle services.

Enoshima Aquarium
(Fujisawa, Kanagawa Prefecture)
The Enoshima Aquarium opened along the Shonan Beach in April 2004. Facing Sagami Bay with Mt. Fuji to the right and scenic Enoshima Island to the left, the aquarium enjoys a prime location. Last year, the aquarium had an attendance of 1.3 million, and welcomed its 7 millionth visitor at the end of November 2008.
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reallocate resources in line with evolving market trends so as to be in a position to pursue future growth once the operating environment settles.

Maintaining and building upon our client-focused orientation, the priority is to create a business portfolio that integrates stability and profitability founded upon the previously mentioned three core pillars: “Finance,” our traditional core business domain, “Finance + Services,” utilizing for example our comprehensive real estate and valuation capabilities, in addition to our expertise in asset and operations management, focus on promoting value-added services along with finance, and finally “Services,” maximize our group-wide specialist know-how to offer a diverse range of industry-targeted services.

In the process of implementing the new framework and business profile, we expect to scale back operating assets relative to earnings and gradually shift towards emphasizing targeted investment and fee-generating business opportunities as opposed to solely lending-orientated transactions.

We are confident that this new and streamlined structure will help to promote non-real estate financing and other newly developed services and product lines.

The Power of ORIX Personnel

ORIX’s policy has always been one of encouraging self-reliance in its corporate members, a spirit of willingness to take on new challenges, and awareness that profits should be generated through business activities that contribute to society and create new value. This is the ORIX DNA, inherited and preserved at all levels of the organization from veterans to the newly employed. I am still amazed and filled with pride when coming in contact on a daily basis with the highly creative people that make ORIX what it is and am in no doubt that this is the organization’s greatest and most valuable asset.

During ORIX’s 45-year history, a drop in earnings has only been recorded on a few occasions — the oil shocks of the 1970s and the collapse of the Japanese bubble economy in the early 1990s coming straight to mind. The only net loss that ORIX has ever
recorded was in its inaugural year of business. However, our most challenging period was immediately after the bursting of the bubble economy when we posted declines in earnings for three consecutive years. The Japanese stock market crash in 1990 led to the default of many equity-backed loans to real estate businesses, upon which we immediately ceased property-backed lending and shifted focus to loan collections ahead of other companies. Over two years we were able to recover approximately two-thirds of the ¥300 billion in loan receivables that we had on the books at the start of the decade. Our early retreat and swift collections meant that ORIX experienced far less distress than other non-banks and financial institutions.

Specialist teams spearheaded our loan recovery efforts during this period. Besides the usual tactics of persistent repayment requests and legal proceedings, we also employed innovative approaches to resolve problematic loans. For example, in some cases we acquired the collateral property as a substitute repayment after which we sought to increase valuation. Alternatively, we accepted land in lieu of repayment, going on to develop property and generate revenue from the site. In this way, we accumulated not only expertise in ordinary loan collections, but also garnered expertise in numerous areas of the real estate sector. Today, these activities have evolved into specialized operations and major earnings sources for ORIX, such as non-performing loan purchases and collections on behalf of financial institutions, a corporate rehabilitation business, and a diverse array of real estate-related capabilities.

ORIX’s official corporate philosophy is: “ORIX is constantly anticipating market needs and working to contribute to society by developing leading financial services on a global scale and striving to offer innovative products that create new value for customers.”

Keeping this at the forefront of our minds at all times, the challenge moving forward is to utilize our countless strengths in response to developments in the external environment, taking prompt and proactive action whenever necessary. Through an unequaled and proven ability to adapt to change, we remain confident that ORIX will continue to be a unique presence in the global financial industry.

Corporate Governance at ORIX

ORIX is a company that has consistently implemented and integrated initiatives to strengthen its corporate governance in response to market conditions. Since the establishment of our Advisory Board in 1997, we have clearly separated the monitoring and executive functions of the business, initially by inviting outside directors onto the Board of Directors and later by introducing a “Company with Committees” model. The Board of Directors, five of the eleven members being outside directors, meticulously oversees whether “self-discipline” is being effectively practiced by the organization as a whole and in particular by executive officers. Furthermore, from June 2007, the members of the Nominating, Audit and Compensation Committees have been composed entirely of outside directors. Going forward, ORIX will continue to further bolster corporate governance and continue improving systems of management oversight.

Note: The Nominating Committee determines whether the conditions necessary for director independence have been met for all directors. Presently, all outside directors meet the necessary conditions, which are shown on page 37.
CSR at ORIX

At ORIX, corporate social responsibility (CSR) means producing economic benefits for society through the medium of business activities.

For ORIX’s future, while seeking to contribute to economic development on a global scale, we also believe it is extremely important to establish a workplace environment, for corporate officers and employees alike, where they feel they are leading meaningful lives that also take into consideration their families and business associates. As one measure to strengthen the corporate culture, we are presently undertaking an initiative aimed at “creating valued workplaces.” We believe that people are our most valued asset and we want ORIX to be a place where all feel they can demonstrate their abilities in a free, creative and energetic environment.

Retained Earnings and Shareholder Value

Under the prevailing economic conditions, we believe at this juncture to retain earnings in order to fund investments in ORIX’s operating infrastructure is the most appropriate way to maintain financial stability and promote sustained growth, ultimately fostering greater shareholder value in the medium- to long-term.

Last year we established a dividend-on-equity ratio of 2% as a benchmark for calculating dividend payments. However, we have since adopted a revised policy that prioritizes improved financial stability. An annual dividend of ¥70 per share has been distributed for fiscal 2009 with retained earnings being allocated to promote future growth.

Senior management and myself remain committed to achieving the goals of medium- to long-term stability and growth and look forward to your continued support and understanding.

In closing, I would like to extend my sincerest thanks to our shareholders, as well as our clients, business partners, associates, employees and other stakeholders who have supported and worked with us during the past year.

July, 2009

Yoshihiko Miyauchi
Director, Representative Executive Officer
Chairman and Chief Executive Officer