

UBS AG
Form 424B2
November 28, 2018

PRICING SUPPLEMENT

Dated November 27, 2018
Filed Pursuant to Rule 424(b)(2)
Registration Statement No. 333-225551

(To Prospectus dated October 31, 2018,

Index Supplement dated October 31, 2018

and Product Supplement dated October 31, 2018)

UBS AG \$3,000,000 Trigger Autocallable Contingent Yield Notes

Linked to the least performing of the Dow Jones Industrial Average[®] and the NASDAQ-100 Index[®] due November 30, 2028

Investment Description

UBS AG Trigger Autocallable Contingent Yield Notes (the “Notes”) are unsubordinated, unsecured debt securities issued by UBS AG (“UBS” or the “issuer”) linked to the least performing of the Dow Jones Industrial Average[®] and the NASDAQ-100 Index[®]. UBS will pay a contingent coupon on the coupon payment date only if the closing level of each underlying asset on the applicable observation date (including the final valuation date) is equal to or greater than its coupon barrier. Otherwise, no contingent coupon will be paid for the relevant coupon payment date. UBS will automatically call the Notes early if the closing level of each underlying asset on any observation date (Quarterly, beginning after 12 months) prior to the final valuation date is equal to or greater than its initial level. If the Notes are subject to an automatic call, UBS will pay on the applicable coupon payment date following such observation date (the “call settlement date”) a cash payment per Note equal to your principal amount plus the contingent coupon otherwise due, and no further payments will be owed to you under the Notes. If the Notes are not subject to an automatic call and the closing level of each underlying asset on the final valuation date (the “final level”) is equal to or greater than its downside threshold, UBS will pay you a cash payment per Note equal to the principal amount. If, however, the Notes are not subject to an automatic call and the final level of any underlying asset is less than its downside threshold, UBS will pay you a cash payment per Note that is less than the principal amount, if anything, resulting in a percentage loss on your initial investment equal to the percentage decline in the least performing underlying asset from the trade date to the final valuation date (the “underlying return”) and, in extreme situations, you could lose all of your initial investment. The “least performing underlying asset” is the underlying asset with the lowest underlying return as compared to any other underlying asset. **Investing in the Notes involves significant risks. You may lose a significant portion or all of your initial investment and may not receive any contingent coupon during the term of the Notes. You will be exposed to the market risk of each underlying asset on each observation date and on the final valuation date and any decline in the level of one underlying asset may negatively affect your return and will not be offset or mitigated by a lesser decline or any potential increase in the level of any other underlying asset. Generally, a higher contingent coupon rate on a Note is associated with a greater risk of loss and a greater risk that you will not receive contingent coupons over the term of the Notes. The contingent repayment of principal applies only at maturity. Any payment on the Notes, including any repayment of principal, is subject to the creditworthiness of UBS. If UBS were to default on its payment obligations you may not receive any amounts owed to you under the Notes and you could lose all of your initial investment.**

Features

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Potential for Periodic Contingent Coupons — UBS will pay a contingent coupon on a coupon payment date only if the closing level of each underlying asset is equal to or greater than its coupon barrier on the applicable observation date (including the final valuation date). Otherwise, if the closing level of any underlying asset is less than its coupon barrier on the applicable observation date, no contingent coupon will be paid for the relevant coupon payment date.

Automatic Call Feature — UBS will automatically call the Notes and pay you the principal amount of your Notes plus the contingent coupon otherwise due on the related coupon payment date if the closing level of each underlying asset is equal to or greater than its initial level on any observation date (Quarterly, beginning after 12 months) prior to the final valuation date. If the Notes were previously subject to an automatic call, no further payments will be owed to you under the Notes.

Contingent Repayment of Principal at Maturity with Potential for Full Downside Market Exposure — If the Notes have not been subject to an automatic call and the final level of each underlying asset is equal to or greater than its downside threshold, UBS will repay you the principal amount per Note at maturity. If, however, the final level of any underlying asset is less than its downside threshold, UBS will pay you a cash payment per Note that is less than the principal amount, if anything, resulting in a percentage loss on your investment equal to the underlying return of the least performing underlying asset. The contingent repayment of principal applies only if you hold the Notes to maturity. Any payment on the Notes including any repayment of principal, is subject to the creditworthiness of UBS.

Key Dates

Strike Date	November 26, 2018
Trade Date*	November 27, 2018
Settlement Date*	November 30, 2018
Observation Dates**	Quarterly (callable after 12 months) (see page 4)
Final Valuation Date**	November 27, 2028
Maturity Date**	November 30, 2028

We expect to deliver the Notes against payment on or about the third business day following the trade date. Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days (T+2), unless the parties to a trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes in the secondary market on any date prior to two business days before delivery of the Notes will be required, by virtue of the fact that each Note initially will settle in three business days (T+3), to specify alternative settlement arrangements to prevent a failed settlement of the secondary market trade.

** Subject to postponement in the event of a market disruption event, as described in the accompanying product supplement.

Notice to investors: the Notes are significantly riskier than conventional debt instruments. The issuer is not necessarily obligated to repay the principal amount of the Notes at maturity, and the Notes may have the same downside market risk as the least performing underlying asset. This market risk is in addition to the credit risk inherent in purchasing a debt obligation of UBS. You should not purchase the Notes if you do not understand or are not comfortable with the significant risks involved in investing in the Notes.

You should carefully consider the risks described under “Key Risks” beginning on page 5 and under “Risk Factors” beginning on page PS-9 of the accompanying product supplement before purchasing any Notes. Events relating to any of those risks, or other risks and uncertainties, could adversely affect the market value of, and the return on, your Notes. You may lose a significant portion or all of your initial investment in the Notes. The Notes will not be listed or displayed on any securities exchange or any electronic communications network.

Note Offering

These terms relate to Notes we are offering linked to the least performing of the Dow Jones Industrial Average[®] and the NASDAQ-100 Index[®]. The initial level of each underlying asset for each offering of the Notes is its closing level on November 26, 2018 and not its closing level on the trade date, and the remaining final terms for each offering of the Notes were also set on that date. The Notes are offered at a minimum investment of 1 Note at \$10 per Note (representing a \$10 investment), and integral multiples of \$10 in excess thereof.

Underlying Asset	Bloomberg Ticker	Contingent Coupon Rate	Initial Levels	Downside Thresholds	Coupon Barriers	CUSIP	ISIN
Dow Jones Industrial Average [®]	INDU	8.00% per annum	24,640.24	12,320.12, which is 50.00% of the Initial Level	17,248.17, which is 70.00% of the Initial Level	90281B676	US90281B6763
NASDAQ-100 Index [®]	NDX		6,678.339	3,339.170, which is 50.00% of the Initial Level	4,674.837, which is 70.00% of the Initial Level		

The estimated initial value of the Notes as of the trade date is \$9.379 for Notes linked to the least performing of the Dow Jones Industrial Average[®] and the NASDAQ-100 Index[®]. The estimated initial value of the Notes was determined as of the close of the relevant markets on the date hereof by reference to UBS' internal pricing models, inclusive of the internal funding rate. For more information about secondary market offers and the estimated initial value of the Notes, see "Key Risks — Fair value considerations" and "— Limited or no secondary market and secondary market price considerations" on page 6 of this supplement.

See "Additional Information about UBS and the Notes" on page ii. The Notes will have the terms set forth in the accompanying product supplement relating to the Notes, dated October 31, 2018, the index supplement, dated October 31, 2018, the accompanying prospectus and this document. Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these Notes or passed upon the adequacy or accuracy of this document, the accompanying index supplement, the accompanying product supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The Notes are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

Offering of Notes	Issue Price to Public		Underwriting Discount		Proceeds to UBS AG	
	Total	Per Note	Total	Per Note	Total	Per Note
Notes linked to the least performing of the Dow Jones Industrial Average [®] and the NASDAQ-100 Index [®]	\$3,000,000.00	\$10.00	\$105,000.00	\$0.35	\$2,895,000.00	\$9.65

UBS Financial Services Inc. UBS Investment Bank

Additional Information about UBS and the Notes

UBS has filed a registration statement (including a prospectus, as supplemented by an index supplement and a product supplement for the Notes) with the Securities and Exchange Commission (the “SEC”), for the offering to which this document relates. Before you invest, you should read these documents and any other documents related to the Notes that UBS has filed with the SEC for more complete information about UBS and this offering. You may obtain these documents for free from the SEC website at www.sec.gov. Our Central Index Key, or CIK, on the SEC website is 0001114446.

You may access these documents on the SEC website at www.sec.gov as follows:

- .. Market-linked Securities product supplement dated October 31, 2018
<http://www.sec.gov/Archives/edgar/data/1114446/000091412118002085/ub47016353-424b2.htm>
- .. Index Supplement dated October 31, 2018
<http://www.sec.gov/Archives/edgar/data/1114446/000091412118002083/ub46174419-424b2.htm>
- .. Prospectus dated October 31, 2018:
<http://www.sec.gov/Archives/edgar/data/1114446/000119312518314003/d612032d424b3.htm>

References to “UBS”, “we”, “our” and “us” refer only to UBS AG and not to its consolidated subsidiaries. In this document, “Trigger Autocallable Contingent Yield Notes” or the “Notes” refer to the Notes that are offered hereby. Also, references to the “accompanying product supplement” or “Market-linked Securities product supplement” mean the UBS product supplement, dated October 31, 2018, references to the “index supplement” mean the UBS index supplement, dated October 31, 2018 and references to “accompanying prospectus” mean the UBS prospectus, titled “Debt Securities and Warrants”, dated October 31, 2018.

This document, together with the documents listed above, contains the terms of the Notes and supersedes all other prior or contemporaneous oral statements as well as any other written materials including all other prior pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in “Key Risks” beginning on page 5 and in “Risk Factors” in the accompanying product supplement, as the Notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before deciding to invest in the Notes.

If there is any inconsistency between the terms of the Notes described in the accompanying prospectus, the accompanying product supplement, the accompanying index supplement and this document, the following hierarchy will govern: first, this document; second, the accompanying product supplement; third, the accompanying index supplement; and last, the accompanying prospectus.

UBS reserves the right to change the terms of, or reject any offer to purchase, the Notes prior to their issuance. In the event of any changes to the terms of the Notes, UBS will notify you and you will be asked to accept such changes in connection with your purchase. You may also choose to reject such changes in which case UBS may reject your offer to purchase.

Investor Suitability

The Notes may be suitable for you if:

- .. You fully understand the risks inherent in an investment in the Notes, including the risk of loss of a significant portion or all of your initial investment.
- .. You understand and accept that an investment in the Notes is linked to the performance of the least performing underlying asset and not a basket of the underlying assets, that you will be exposed to the individual market risk of each underlying asset on each observation date and on the final valuation date and that you may lose a significant portion or all of your initial investment if the closing level of any underlying asset is less than its downside threshold on the final valuation date.
- .. You can tolerate a loss of a significant portion or all of your initial investment and are willing to make an investment that may have the same downside market risk as a hypothetical investment in the least performing underlying asset or the stocks comprising the underlying assets (the "underlying constituents").
- .. You are willing to receive no contingent coupons and believe the closing level of each underlying asset will be equal to or greater than its coupon barrier on the specified observation dates and the final level of each underlying asset will be equal to or greater than its downside threshold on the final valuation date.
- .. You can accept that the risks of each underlying asset are not mitigated by the performance of any other underlying asset and the risks of investing in securities with a return based on the performance of multiple underlying assets.
- .. You understand and accept that you will not participate in any appreciation of any underlying asset and that your potential return is limited to the contingent coupons specified in the applicable pricing supplement.
- .. You can tolerate fluctuations in the price of the Notes prior to maturity that may be similar to or exceed the downside fluctuations in the levels of the underlying assets.
- .. You are willing to invest in the Notes based on the contingent coupon rate, downside threshold(s) and coupon barrier(s) specified on the cover hereof.
- .. You do not seek guaranteed current income from your investment and are willing to forgo any dividends paid on the underlying constituents.
- .. You are willing to invest in Notes that may be subject to an automatic call and you are otherwise willing to hold such Notes to maturity and you accept that there may be little or no secondary market for the Notes.
 - .. You understand and are willing to accept the risks associated with the underlying assets.
- .. You are willing to assume the credit risk of UBS for all payments under the Notes, and understand that if UBS defaults on its obligations you may not receive any amounts due to you including any repayment of principal.
- .. You understand that the estimated initial value of the Notes determined by our internal pricing models is lower than the issue price and that should UBS Securities LLC or any affiliate make secondary markets for the Notes, the price (not including their customary bid-ask spreads) will temporarily exceed the internal pricing model price.

The Notes may not be suitable for you if:

- .. You do not fully understand the risks inherent in an investment in the Notes, including the risk of loss of a significant portion or all of your initial investment.
- .. You do not understand or are unwilling to accept that an investment in the Notes is linked to the performance of the least performing underlying asset and not a basket of the underlying assets, that you will be exposed to the individual market risk of each underlying asset on each observation date and on the final valuation date and that you may lose a significant portion or all of your initial investment if the closing level of any underlying asset is less than its downside threshold on the final valuation date.
 - .. You require an investment designed to provide a full return of principal at maturity.
- .. You cannot tolerate a loss of a significant portion or all of your initial investment or are unwilling to make an investment that may have the same downside market risk as a hypothetical investment in the least performing underlying asset.
- .. You are unwilling to receive no contingent coupons during the term of the Notes and believe that the closing level of at least one underlying asset will decline during the term of the Notes and is likely to be less than its coupon barrier on at least one observation date or that the final level of any underlying asset will be less than its downside threshold

on the final valuation date.

You cannot accept that the risks of each underlying asset are not mitigated by the performance of any other underlying asset or the risks of investing in securities with a return based on the performance of multiple underlying assets.

.. You seek an investment that participates in the full appreciation of the levels of the underlying assets or that has unlimited return potential.

.. You cannot tolerate fluctuations in the price of the Notes prior to maturity that may be similar to or exceed the downside fluctuations in the levels of the underlying assets.

.. You are unwilling to invest in the Notes based on the contingent coupon rate, downside threshold(s) or coupon barrier(s) specified on the cover hereof.

.. You seek guaranteed current income from this investment or prefer to receive any dividends paid on the underlying constituents.

You are unable or are unwilling to invest in Notes that may be subject to an automatic call, you are otherwise unable or unwilling to hold the Notes to maturity or you seek an investment for which there will be an active secondary market for the Notes.

.. You do not understand or are unwilling to accept the risks associated with the underlying assets.

.. You are unwilling to assume the credit risk of UBS for all payments under the Notes, including any repayment of principal.

The suitability considerations identified above are not exhaustive. Whether or not the Notes are a suitable investment for you will depend on your individual circumstances and you should reach an investment decision only after you and your investment, legal, tax, accounting and other advisors have carefully considered the suitability of an investment in the Notes in light of your particular circumstances. You should review “Information About the Underlying Assets” herein for more information on the underlying assets. You should also review carefully the “Key Risks” section herein for risks related to an investment in the Notes.

Final Terms

Issuer UBS AG London Branch
 Principal Amount \$10 per Note
 Term Approximately 10 years, unless subject to an automatic call.
 Underlying Assets The Dow Jones Industrial Average[®] and the NASDAQ-100 Index[®]

If the closing level of each underlying asset is equal to or greater than its coupon barrier on any observation date (including the final valuation date), UBS will pay you the contingent coupon applicable to such observation date on the related coupon payment date.

If the closing level of any underlying asset is less than its coupon barrier on any observation date (including the final valuation date), the contingent coupon applicable to such observation date will not accrue or be payable and UBS will not make any payment to you on the relevant coupon payment date.

Contingent Coupon and Contingent Coupon Rate

The contingent coupon will be a fixed amount based upon equal periodic installments at the contingent coupon rate, which is a per annum rate. The table below sets forth the contingent coupon rate and contingent coupon for each Note that would be applicable to each observation date on which the closing level of each underlying asset is greater than or equal to its coupon barrier.

Contingent Coupon Rate	8.00%
Contingent Coupon	\$0.20

Contingent coupons on the Notes are not guaranteed. UBS will not pay you the contingent coupon for any observation date

on which the closing level of any underlying asset is less than its coupon barrier.

UBS will automatically call the Notes if the closing level of each underlying asset on any observation date (Quarterly, beginning after 12 months) prior to the final valuation date is equal to or greater than its initial level.

Automatic Call Feature

If the Notes are subject to an automatic call, UBS will pay you on the corresponding coupon payment date (which will be the “call settlement date”) a cash payment per Note equal to your principal amount plus the contingent coupon otherwise due on such date. Following an automatic call, no further payments will be made on the Notes.

If the Notes are not subject to an automatic call and the final level of each underlying asset is equal to or greater than its downside threshold, UBS will pay you a cash payment equal to:

Principal Amount of \$10

Payment at Maturity (per Note)

If the Notes are not subject to an automatic call and the final level of any underlying asset is less than its downside threshold, UBS will pay you a cash payment that is less than the principal amount, if anything, equal to:

$\$10 \times (1 + \text{Underlying Return of the least performing Underlying Asset})$

In such a case, you will suffer a percentage loss on your initial investment equal to the underlying return of the least performing underlying asset regardless of the underlying return of any other underlying asset.

Least Performing Underlying Asset

The underlying asset with the lowest underlying return as compared to any other underlying asset. For each underlying asset, the quotient, expressed as a percentage, of the following formula:

Underlying Return

$\frac{\text{Final Level} - \text{Initial Level}}{\text{Initial Level}}$

Downside Threshold⁽¹⁾

For each underlying asset, a specified level of the underlying asset that is less than its initial level, equal to a percentage of its initial level, as indicated on the cover hereof and as determined by the calculation agent.

Coupon Barrier⁽¹⁾

For each underlying asset, a specified level of the underlying asset that is less than its initial level, equal to a percentage of the initial level, as indicated on the cover hereof and as determined by the calculation agent.

Initial Level⁽¹⁾

The closing level of each underlying asset on November 26, 2018, as determined by the calculation agent and as indicated on the cover hereof. The initial level for each underlying asset

is its closing level on November 26, 2018 and not its closing level on the trade date.

Final Level⁽¹⁾

The closing level of each underlying asset on the final valuation date, as determined by the calculation agent.

⁽¹⁾ As may be adjusted as described under “General Terms of the Securities — Discontinuance of or Adjustment to an Underlying Index; Alteration of Method of Calculation” in the accompanying product supplement.

Investment Timeline

Trade date

The initial level of each underlying asset was observed and the final terms of the Notes were set on November 26, 2018.

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If the closing level of each underlying asset is equal to or greater than its coupon barrier on any observation date (including the final valuation date), UBS will pay you a contingent coupon on the applicable coupon payment date.

Observation Dates

The Notes will be subject to an automatic call if the closing level of each underlying asset on any observation date (Quarterly, beginning after 12 months) prior to the final valuation date is equal to or greater than its initial level.

If the Notes are subject to an automatic call, UBS will pay you a cash payment per Note equal to \$10 plus the contingent coupon otherwise due on such date.

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The final level of each underlying asset is observed on the final valuation date.

If the Notes are not subject to an automatic call and the final level of each underlying asset is equal to or greater than its downside threshold, UBS will pay you a cash payment per Note equal to:

Principal Amount of \$10

Maturity date

If the Notes are not subject to an automatic call and the final level of any underlying asset is less than its downside threshold, UBS will pay you a cash payment per Note that is less than the principal amount, if anything, equal to:

$\$10 \times (1 + \text{Underlying Return of the Least Performing Underlying Asset})$

In such a case, you will suffer a percentage loss on your initial investment equal to the underlying return of the least performing underlying asset.

Investing in the Notes involves significant risks. You may lose a significant portion or all of your initial investment. Any payment on the Notes, including any repayment of principal, is subject to the creditworthiness of UBS. If UBS were to default on its payment obligations, you may not receive any amounts owed to you under the Notes and you could lose all of your initial investment.

If the Notes are not subject to an automatic call, you may lose a significant portion or all of your initial investment. Specifically, if the Notes are not subject to an automatic call and the final level of any underlying asset is less than its downside threshold, you will lose a percentage of your principal amount equal to the underlying return of the least performing underlying asset and, in extreme situations, you could lose all of your initial investment. You will be exposed to the market risk of each underlying asset on each observation date and on the final valuation date and any decline in the level of one underlying asset may negatively affect your return and will not be offset or mitigated by a lesser decline or any potential increase in the level of any other underlying asset.

Observation Dates and Coupon Payment Dates⁽¹⁾⁽²⁾⁽³⁾

Observation Dates	Coupon Payment Dates	Observation Dates	Coupon Payment Dates
February 27, 2019*	March 1, 2019*	February 27, 2024	February 29, 2024
May 28, 2019*	May 30, 2019*	May 28, 2024	May 30, 2024
August 27, 2019*	August 29, 2019*	August 27, 2024	August 29, 2024
November 27, 2019*	December 2, 2019	November 27, 2024	December 2, 2024
February 27, 2020	March 2, 2020	February 27, 2025	March 3, 2025
May 27, 2020	May 29, 2020	May 27, 2025	May 29, 2025
August 27, 2020	August 31, 2020	August 27, 2025	August 29, 2025
November 27, 2020	December 1, 2020	November 28, 2025	December 2, 2025
March 1, 2021	March 3, 2021	February 27, 2026	March 3, 2026
May 27, 2021	June 1, 2021	May 27, 2026	May 29, 2026
August 27, 2021	August 31, 2021	August 27, 2026	August 31, 2026
November 29, 2021	December 1, 2021	November 27, 2026	December 1, 2026
February 28, 2022	March 2, 2022	March 1, 2027	March 3, 2027
May 27, 2022	June 1, 2022	May 27, 2027	June 1, 2027
August 29, 2022	August 31, 2022	August 27, 2027	August 31, 2027
November 28, 2022	November 30, 2022	November 29, 2027	December 1, 2027
February 27, 2023	March 1, 2023	February 28, 2028	March 1, 2028
May 30, 2023	June 1, 2023	May 30, 2028	June 1, 2028
August 28, 2023	August 30, 2023	August 28, 2028	August 30, 2028
November 27, 2023	November 29, 2023	November 27, 2028**	November 30, 2028***

* The Notes are not callable until the first potential call settlement date, which is December 2, 2019.

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This is also the final valuation date.

This is also the maturity date.

(1) Subject to the market disruption event provisions set forth in the accompanying product supplement.

(2) 2 business days following each observation date, except that the coupon payment date for the final valuation date is the maturity date.

(3) If you are able to sell the Notes in the secondary market on an observation date, the purchaser of the Notes will be deemed to be the record holder on the applicable record date and therefore you will not be entitled to any payment attributable to that observation date.

Key Risks

An investment in the Notes involves significant risks. Investing in the Notes is not equivalent to a hypothetical investment in the least performing underlying asset or its underlying constituents. Some of the risks that apply to the Notes are summarized below, but we urge you to read the more detailed explanation of risks relating to the Notes in the “Risk Factors” section of the accompanying product supplement. We also urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Notes.

Risk of loss at maturity — The Notes differ from ordinary debt securities in that UBS will not necessarily make periodic coupon payments or repay the principal amount of the Notes at maturity. If the Notes are not subject to an automatic call and the final level of any underlying asset is less than its downside threshold, you will lose a percentage of your principal amount equal to the underlying return of the least performing underlying asset and, in extreme situations, you could lose all of your initial investment.

The contingent repayment of principal applies only at maturity — You should be willing to hold your Notes to maturity. If you are able to sell your Notes prior to an automatic call or maturity in the secondary market, you may have to sell them at a loss relative to your initial investment even if the level of each underlying asset is equal to or greater than its downside threshold. All payments on the Notes are subject to the creditworthiness of UBS.

You may not receive any contingent coupons with respect to your Notes — UBS will not necessarily make periodic coupon payments on the Notes. UBS will pay a contingent coupon for each observation date on which the closing level of each underlying asset is equal to or greater than its coupon barrier. If the closing level of any underlying asset is less than its coupon barrier on any observation date, UBS will not pay you the contingent coupon applicable to such observation date. If the closing level of any underlying asset is less than its coupon barrier on each of the observation dates, UBS will not pay you any contingent coupons during the term of, and you will not receive a positive return on, your Notes. Generally, this non-payment of the contingent coupon coincides with a period of greater risk of principal loss on your Notes.

Your potential return on the Notes is limited to the contingent coupons and you will not participate in any appreciation of any underlying asset or underlying constituents — The return potential of the Notes is limited to the pre-specified contingent coupon rate, regardless of any appreciation of any underlying asset. In addition, your return on the Notes will vary based on the number of observation dates, if any, on which the requirements of the contingent coupon have been met prior to maturity or an automatic call. Further, if the Notes are subject to an automatic call, you will not receive any contingent coupons or any other payment in respect of any observation dates after the applicable call settlement date. Because the Notes may be subject to an automatic call as early as the first potential call settlement date, the total return on the Notes could be less than if the Notes remained outstanding until maturity. Furthermore, if the Notes are not subject to an automatic call, you may be subject to the decline of the least performing underlying asset even though you cannot participate in any appreciation of any underlying asset or underlying constituents. As a result, the return on an investment in the Notes could be less than the return on a hypothetical direct investment in any or all of the underlying assets or underlying constituents. In addition, as an owner of the Notes, you will not have voting rights or any other rights of a holder of the underlying constituents.

A higher contingent coupon rate or lower downside thresholds or coupon barriers may reflect greater expected volatility of the underlying assets, and greater expected volatility generally indicates an increased risk of loss at maturity — The economic terms for the Notes, including the contingent coupon rate, coupon barriers and downside thresholds, are based, in part, on the expected volatility of each underlying asset at the time the terms of the Notes are set. “Volatility” refers to the frequency and magnitude of changes in the level of each underlying asset. The greater the expected volatility of each underlying asset as of the trade date, the greater the expectation is as of that date that the closing level of each underlying asset could be less than its coupon barrier on any observation date and that the final level of each underlying asset could be less than its downside threshold on the final valuation date and, as a consequence, indicates an increased risk of not receiving a contingent coupon and an increased risk of loss, respectively. All things being equal, this greater expected volatility will generally be reflected in a higher contingent coupon rate than the yield payable on our conventional debt securities with a similar maturity or on otherwise comparable securities, and/or lower downside thresholds and/or coupon barriers than those terms on otherwise

comparable securities. Therefore, a relatively higher contingent coupon rate may indicate an increased risk of loss. Further, relatively lower downside threshold(s) and/or coupon barrier(s) may not necessarily indicate that the Notes have a greater likelihood of a return of principal at maturity and/or paying contingent coupons. You should be willing to accept the downside market risk of the least performing underlying asset and the potential to lose a significant portion or all of your initial investment.

Reinvestment risk — The Notes will be subject to an automatic call if the closing level of each underlying asset is equal to or greater than its initial level on certain observation dates prior to the final valuation date as set forth under “Observation Dates and Coupon Payment Dates” above. Because the Notes could be subject to an automatic call, the term of your investment may be limited. In the event that the Notes are subject to an automatic call, there is no guarantee that you would be able to reinvest the proceeds at a comparable return and/or with a comparable contingent coupon rate for a similar level of risk. In addition, to the extent you are able to reinvest such proceeds in an investment comparable to the Notes, you may incur transaction costs such as dealer discounts and hedging costs built into the price of the new securities. Generally, however, the longer the Notes remain outstanding, the less likely the Notes will be subject to an automatic call due to the decline in the level of an underlying asset and the shorter time remaining for the level of any such underlying asset to recover. Such periods generally coincide with a period of greater risk of principal loss on your Notes.

You are exposed to the market risk of each underlying asset — Your return on the Notes is not linked to a basket consisting of the underlying assets. Rather, it will be contingent upon the performance of each individual underlying asset. Unlike an instrument with a return linked to a basket of indices, common stocks or other underlying securities, in which risk is mitigated and diversified among all of the components of the basket, you will be exposed equally to the risks related to each underlying asset. Poor performance by any underlying asset over the term of the Notes will negatively affect your return and will not be offset or mitigated by a positive performance by any other underlying asset. For instance, you may receive a negative return equal to the underlying return of the least performing underlying asset if the closing level of one underlying asset is less than its downside threshold on the final valuation date, even if the underlying return of any other underlying asset is positive or has not declined as much. Accordingly, your investment is subject to the market risk of each underlying asset.

Because the Notes are linked to the least performing underlying asset, you are exposed to a greater risk of no contingent coupons and losing a significant portion or all of your initial investment at maturity than if the Notes were linked to only one underlying asset — The risk that you will not receive any contingent coupons and lose a significant portion or all of your initial investment in the Notes is greater if you invest in the Notes than the risk of investing in substantially similar securities that are linked to the performance of only one underlying asset. With more underlying assets, it is more likely that the closing level of any underlying asset will be less than its coupon barrier on any observation date or decline to a closing level that is less than its downside threshold than if the Notes were linked to fewer underlying assets.

In addition, the lower the correlation is between the performance of a pair of underlying assets, the more likely it is that one of the underlying assets will decline in value to a closing level or final level, as applicable, that is less than its coupon barrier or downside threshold on any observation date or on a final valuation date, respectively. Although the correlation of the underlying assets’ performance may change over the term of the Notes, the economic terms of the Notes, including the contingent coupon rate, downside threshold and coupon barrier are determined, in part, based on the correlation of the underlying assets’ performance calculated using our internal models at the time when the terms of the Notes are finalized. All things being equal, a higher contingent coupon rate and lower downside threshold and coupon barrier is generally associated with lower correlation of the underlying assets. Therefore, if the performance of a pair of underlying assets is not correlated to each other or is negatively correlated, the risk that you will not receive any contingent coupons or that the final level of any underlying asset is less than its downside threshold will occur is even greater despite a lower downside threshold and coupon barrier. Therefore, it is more likely that you will not receive any contingent coupons and that you will lose a significant portion or all of your initial investment at maturity.

Credit risk of UBS — The Notes are unsubordinated, unsecured debt obligations of UBS and are not, either directly or indirectly, an obligation of any third party. Any payment to be made on the Notes, including any repayment of principal, depends on the ability of UBS to satisfy its obligations as they come due. As a result, UBS’ actual and perceived creditworthiness may affect the market value of the Notes. If UBS were to default on its obligations, you

may not receive any amounts owed to you under the terms of the Notes and you could lose all of your initial investment.

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Market risk — The return on the Notes, which may be negative, is directly linked to the performance of the underlying assets and indirectly linked to the value of the underlying constituents. The level of the underlying assets can rise or fall sharply due to factors specific to the underlying assets and its underlying constituents and their issuers (each, an “underlying constituent issuer”), such as stock price volatility, earnings and financial conditions, corporate, industry and regulatory developments, management changes and decisions and other events, as well as general market factors, such as general stock market or commodity market volatility and levels, interest rates and economic and political conditions.

Fair value considerations.

The issue price you pay for the Notes exceeds their estimated initial value — The issue price you pay for the Notes exceeds their estimated initial value as of the trade date due to the inclusion in the issue price of the underwriting discount, hedging costs, issuance costs and projected profits. As of the close of the relevant markets on the trade date, we have determined the estimated initial value of the Notes by reference to our internal pricing models and it is set forth herein. The pricing models used to determine the estimated initial value of the Notes incorporate certain variables, including the levels and volatility of the underlying assets and underlying constituents, the correlation among the underlying assets, any expected dividends of the and underlying constituents, if applicable, prevailing interest rates, the term of the Notes and our internal funding rate. Our internal funding rate is typically lower than the rate we would pay to issue conventional fixed or floating rate debt securities of a similar term. The underwriting discount, hedging costs, issuance costs, projected profits and the difference in rates will reduce the economic value of the Notes to you. Due to these factors, the estimated initial value of the Notes as of the trade date is less than the issue price you pay for the Notes.

The estimated initial value is a theoretical price; the actual price that you may be able to sell your Notes in any secondary market (if any) at any time after the trade date may differ from the estimated initial value— The value of your Notes at any time will vary based on many factors, including the factors described above and in “— Market risk” above and is impossible to predict. Furthermore, the pricing models that we use are proprietary and rely in part on certain assumptions about future events, which may prove to be incorrect. As a result, after the trade date, if you attempt to sell the Notes in the secondary market, the actual value you would receive may differ, perhaps materially, from the estimated initial value of the Notes determined by reference to our internal pricing models. The estimated initial value of the Notes does not represent a minimum or maximum price at which we or any of our affiliates would be willing to purchase your Notes in any secondary market at any time.

Our actual profits may be greater or less than the differential between the estimated initial value and the issue price of the Notes as of the trade date — We may determine the economic terms of the Notes, as well as hedge our obligations, at least in part, prior to the trade date. In addition, there may be ongoing costs to us to maintain and/or adjust any hedges and such hedges are often imperfect. Therefore, our actual profits (or potentially, losses) in issuing the Notes cannot be determined as of the trade date and any such differential between the estimated initial value and the issue price of the Notes as of the trade date does not reflect our actual profits. Ultimately, our actual profits will be known only at the maturity of the Notes.

Limited or no secondary market and secondary market price considerations.

There may be little or no secondary market for the Notes — The Notes will not be listed or displayed on any securities exchange or any electronic communications network. UBS Securities LLC and its affiliates intend, but are not required, to make a market for the Notes and may stop making a market at any time. If you are able to sell your Notes prior to maturity, you may have to sell them at a substantial loss. Furthermore, there can be no assurance that a secondary market for the Notes will develop. The estimated initial value of the Notes does not represent a minimum or maximum price at which we or any of our affiliates would be willing to purchase your Notes in any secondary market at any time.

The price at which UBS Securities LLC and its affiliates may offer to buy the Notes in the secondary market (if any) may be greater than UBS’ valuation of the Notes at that time, greater than any other secondary market prices provided by unaffiliated dealers (if any) and, depending on your broker, greater than the valuation provided on your customer account statement — For a limited period of time following the issuance of the Notes, UBS Securities LLC or its affiliates may offer to buy or sell such Notes at a price that exceeds (i) our

valuation of the Notes at that time based on our internal pricing models, (ii) any secondary market prices provided by unaffiliated dealers (if any) and (iii) depending on your broker, the valuation provided on customer account statements. The price that UBS Securities LLC may initially offer to buy such Notes following issuance will exceed the valuations indicated by our internal pricing models due to the inclusion for a limited period of time of the aggregate value of the underwriting discount, hedging costs, issuance costs and theoretical projected trading profit. The portion of such amounts included in our price will decline to zero on a straight line basis over a period ending no later than the date specified under “Supplemental Plan of Distribution (Conflicts of Interest); Secondary Markets (if any)”. Thereafter, if UBS Securities LLC or an affiliate makes secondary markets in the Notes, it will do so at prices that reflect our estimated value determined by reference to our internal pricing models at that time. The temporary positive differential relative to our internal pricing models arises from requests from and arrangements made by UBS Securities LLC with the selling agents of structured debt securities such as the Notes. As described above, UBS Securities LLC and its affiliates intend, but are not required, to make a market for the Notes and may stop making a market at any time. The price at which UBS Securities LLC or an affiliate may make secondary markets at any time (if at all) will also reflect its then current bid-ask spread for similar sized trades of structured debt securities. UBS Financial Services Inc. and UBS Securities LLC reflect this temporary positive differential on their customer statements. Investors should inquire as to the valuation provided on customer account statements provided by unaffiliated dealers.

Economic and market factors affecting the terms and market price of Notes prior to maturity — Because structured notes, including the Notes, can be thought of as having a debt component and a derivative component, factors that influence the values of debt instruments and options and other derivatives will also affect the terms and features of the Notes at issuance and the market price of the Notes prior to maturity. These factors include the levels of the underlying assets and their underlying constituents; the volatility of the underlying assets and their underlying constituents; the correlation among the underlying assets; the dividend rate paid on the underlying constituents, if applicable; the time remaining to the maturity of the Notes; interest rates in the markets; geopolitical conditions and economic, financial, political, force majeure and regulatory or judicial events; whether each of the underlying assets is currently or has been less than its coupon barrier; the availability of comparable instruments; the creditworthiness of UBS; the then current bid-ask spread for the Notes and the factors discussed under “— Potential conflict of interest” below. These and other factors are unpredictable and interrelated and may offset or magnify each other.

Impact of fees and the use of internal funding rates rather than secondary market credit spreads on secondary market prices — All other things being equal, the use of the internal funding rates described above under “—Fair value considerations” as well as the inclusion in the issue price of the underwriting discount, hedging costs, issuance costs and any projected profits are, subject to the temporary mitigating effect of UBS Securities LLC’s and its affiliates’ market making premium, expected to reduce the price at which you may be able to sell the Notes in any secondary market.

There can be no assurance that the investment view implicit in the Notes will be successful — It is impossible to predict whether and the extent to which the levels of the underlying assets will rise or fall and there can be no assurance that the closing level of each underlying asset will be equal to or greater than its coupon barrier on any observation date, or, if the Notes are not subject to an automatic call, that the final level of each underlying asset will be equal to or greater than its downside threshold. The level of each underlying asset will be influenced by complex and interrelated political, economic, financial and other factors that affect the underlying constituent issuers. You should be willing to accept the downside risks associated with the relevant markets tracked by each such underlying asset in general and the underlying assets and its underlying constituents in particular, and the risk of losing a significant portion or all of your initial investment.

UBS cannot control actions by the index sponsors and the index sponsors have no obligation to consider your interests — UBS and its affiliates are not affiliated with the index sponsors and have no ability to control or predict their actions, including any errors in or discontinuation of public disclosure regarding methods or policies relating to the calculation of the underlying assets. The index sponsors are not involved in the Notes offering in any way and have no obligation to consider your interest as an owner of the Notes in taking any actions that might affect the market value of your Notes.

The Notes are subject to non-U.S. securities market risk — The Notes are subject to risks associated with non-U.S. companies and non-U.S. securities markets because the underlying index's underlying equity constituents are non-U.S. companies that are traded on various non-U.S. exchanges. Generally, non-U.S. securities markets may be more volatile than U.S. securities markets, and market developments may affect non-U.S. markets differently from U.S. securities markets. Direct or indirect government intervention to stabilize these non-U.S. markets, as well as cross shareholdings in non-U.S. companies, may affect trading prices and volumes in those markets. There is generally less publicly available information about non-U.S. companies than about those U.S. companies that are subject to the reporting requirements of the SEC, and non-U.S. companies are subject to accounting, auditing and financial reporting standards and requirements that differ from those applicable to U.S. reporting companies. Securities prices in non-U.S. countries are subject to political, economic, financial and social factors that may be unique to the particular country. These factors, which could negatively affect the non-U.S. securities markets, include the possibility of recent or future changes in the non-U.S. government's economic and fiscal policies, the possible imposition of, or changes in, currency exchange laws or other non-U.S. laws or restrictions applicable to non-U.S. companies or investments in non-U.S. equity securities and the possibility of fluctuations in the rate of exchange between currencies. Moreover, certain aspects of a particular non-U.S. economy may differ favorably or unfavorably from the U.S. economy in important respects, such as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency.

The underlying assets reflect price return, not total return — The return on your Notes is based on the performance of the underlying assets, which reflect the changes in the market prices of the underlying constituents. They are not, however, linked to a "total return" index or strategy, which, in addition to reflecting those price returns, would also reflect dividends paid on the underlying constituents. The return on your Notes will not include such a total return feature or dividend component.

Changes affecting the underlying assets could have an adverse effect on the value of the Notes — The policies of each index sponsor as specified under "Information About the Underlying Assets" (together, the "index sponsors"), concerning additions, deletions and substitutions of the underlying equity constituents and the manner in which the index sponsor takes account of certain changes affecting those underlying equity constituents may adversely affect the levels of the underlying assets. The policies of the index sponsors with respect to the calculation of the underlying assets could also adversely affect the levels of the underlying assets. The index sponsors may discontinue or suspend calculation or dissemination of the underlying assets. Any such actions could have an adverse effect on the value of the Notes.

Potential UBS impact on the underlying assets — Trading or transactions by UBS or its affiliates in the underlying assets or any underlying constituent, listed and/or over-the-counter options, futures, exchange-traded funds or other instruments with returns linked to the performance of the underlying assets or any underlying constituent, may adversely affect the levels of the underlying assets and, therefore, the market value of the Notes.

Potential conflict of interest — UBS and its affiliates may engage in business with an underlying asset issuer or any underlying constituent issuer, which may present a conflict between the obligations of UBS and you, as a holder of the Notes. There are also potential conflicts of interest between you and the calculation agent, which will be an affiliate of UBS and which will make potentially subjective judgments. The calculation agent will determine whether the contingent coupon is payable to you on any coupon payment date, whether the Notes are subject to an automatic call and the payment at maturity of the Notes, if any, based on observed levels of the underlying assets. The calculation agent can postpone the determination of the initial level, closing level or final level of any underlying asset (and therefore the settlement date, the related coupon payment date or the maturity date, as applicable), on the trade date, any observation date or the final valuation date, respectively, if a market disruption event occurs and is continuing on such date. As UBS determines the economic terms of the Notes, including the contingent coupon rate, downside threshold and coupon barrier, and such terms include the underwriting discount, hedging costs, issuance costs and projected profits, the Notes represent a package of economic terms. There are other potential conflicts of interest insofar as an investor could potentially get better economic terms if that investor entered into exchange-traded and/or OTC derivatives or other instruments with third parties, assuming that such instruments were

available and the investor had the ability to assemble and enter into such instruments.

Potentially inconsistent research, opinions or recommendations by UBS — UBS and its affiliates publish research from time to time on financial markets and other matters that may influence the value of the Notes, or express opinions or provide recommendations that are inconsistent with purchasing or holding the Notes. Any research, opinions or recommendations expressed by UBS or its affiliates may not be consistent with each other and may be modified from time to time without notice. Investors should make their own independent investigation of the merits of investing in the Notes and the underlying assets to which the Notes are linked.

The Notes are not bank deposits — An investment in the Notes carries risks which are very different from the risk profile of a bank deposit placed with UBS or its affiliates. The Notes have different yield and/or return, liquidity and risk profiles and would not benefit from any protection provided to deposits.

If UBS experiences financial difficulties, FINMA has the power to open restructuring or liquidation proceedings in respect of, and/or impose protective measures in relation to, UBS, which proceedings or measures may have a material adverse effect on the terms and market value of the Notes and/or the ability of UBS to make payments thereunder — The Swiss Financial Market Supervisory Authority (“FINMA”) has broad statutory powers to take measures and actions in relation to UBS if (i) it concludes that there is justified concern that UBS is over-indebted or has serious liquidity problems or (ii) UBS fails to fulfil the applicable capital adequacy requirements (whether on a standalone or consolidated basis) after expiry of a deadline set by FINMA. If one of these pre-requisites is met, FINMA is authorized to open restructuring proceedings or liquidation (bankruptcy) proceedings in respect of, and/or impose protective measures in relation to, UBS. The Swiss Banking Act grants significant discretion to FINMA in connection with the aforementioned proceedings and measures. In particular, a broad variety of protective measures may be imposed by FINMA, including a bank moratorium or a maturity postponement, which measures may be ordered by FINMA either on a stand-alone basis or in connection with restructuring or liquidation proceedings. The resolution regime of the Swiss Banking Act is further detailed in the FINMA Banking Insolvency Ordinance (“BIO-FINMA”). In a restructuring proceeding, FINMA, as resolution authority, is competent to approve the resolution plan. The resolution plan may, among other things, provide for (a) the transfer of all or a portion of UBS’ assets, debts, other liabilities and contracts (which may or may not include the contractual relationship between UBS and the holders of Notes) to another entity, (b) a stay (for a maximum of two business days) on the termination of contracts to which UBS is a party, and/or the exercise of (w) rights to terminate, (x) netting rights, (y) rights to enforce or dispose of collateral or (z) rights to transfer claims, liabilities or collateral under contracts to which UBS is a party, (c) the conversion of UBS’ debt and/or other obligations, including its obligations under the Notes, into equity (a “debt-to-equity” swap), and/or (d) the partial or full write-off of obligations owed by UBS (a “write-off”), including its obligations under the Notes. The BIO-FINMA provides that a debt-to-equity swap and/or a write-off of debt and other obligations (including the Notes) may only take place after (i) all debt instruments issued by UBS qualifying as additional tier 1 capital or tier 2 capital have been converted into equity or written-off, as applicable, and (ii) the existing equity of UBS has been fully cancelled. While the BIO-FINMA does not expressly address the order in which a write-off of debt instruments other than debt instruments qualifying as additional tier 1 capital or tier 2 capital should occur, it states that debt-to-equity swaps should occur in the following order: first, all subordinated claims not qualifying as regulatory capital; second, all other claims not excluded by law from a debt-to-equity swap (other than deposits); and third, deposits (in excess of the amount privileged by law). However, given the broad discretion granted to FINMA as the resolution authority, any restructuring plan in respect of UBS could provide that the claims under or in connection with the Notes will be partially or fully converted into equity or written-off, while preserving other obligations of UBS that rank *pari passu* with, or even junior to, UBS’ obligations under the Notes. Consequently, holders of Notes may lose all or some of their investment in the Notes. In the case of restructuring proceedings with respect to a systemically important Swiss bank (such as UBS), the creditors whose claims are affected by the restructuring plan will not have a right to vote on, reject, or seek the suspension of the restructuring plan. In addition, if a restructuring plan has been approved by FINMA, the rights of a creditor to seek judicial review of the restructuring plan (e.g., on the grounds that the plan would unduly prejudice the rights of holders of Notes or otherwise be in violation of the Swiss Banking Act) are very limited. In particular, a court may not suspend the implementation of the restructuring plan. Furthermore, even if a creditor successfully challenges the restructuring plan, the court can only require the relevant creditor to be compensated *ex post* and there is currently no guidance as to on what basis such compensation would be calculated or how it would be funded.

Dealer incentives — UBS and its affiliates act in various capacities with respect to the Notes. We and our affiliates may act as a principal, agent or dealer in connection with the sale of the Notes. Such affiliates, including the sales representatives, will derive compensation from the distribution of the Notes and such compensation may serve as an incentive to sell these Notes instead of other investments. We will pay total underwriting compensation in an amount equal to the underwriting discount listed on the cover hereof per Note to any of our affiliates acting as agents or dealers in connection with the distribution of the Notes. Given that UBS Securities LLC and its affiliates temporarily maintain a market making premium, it may have the effect of discouraging UBS Securities LLC and its affiliates from recommending sale of your Notes in the secondary market.

Uncertain tax treatment — Significant aspects of the tax treatment of the Notes are uncertain. You should consult your tax advisor about your tax situation.

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Hypothetical Examples of How the Notes Might Perform

The below examples are based on hypothetical terms. The actual terms are indicated on the cover hereof. The examples below illustrate the payment upon a call or at maturity for a \$10 Note on a hypothetical offering of the Notes, with the following assumptions (amounts may have been rounded for ease of reference):

Principal Amount:	\$10			
Term:	Approximately 10 years			
Contingent Coupon Rate:	8.00% per annum (or 2.00% per quarter)			
Contingent Coupon:	\$0.20 per quarter			
Observation Dates:	Quarterly (callable after 12 months)			
Initial Level:				
Underlying Asset A	25,000			
Underlying Asset B	7,500			
Downside Threshold:				
Underlying Asset A	12,500 (which is 50.00% of the initial level)	(7,653)	(72)	
		<u>564,047</u>	<u>727,333</u>	<u>6,773</u>
		<u>¥ 5,624,957</u>	<u>¥ 6,068,953</u>	<u>\$ 56,513</u>

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

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

ORIX Corporation and its Subsidiaries

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

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

Yen

Dollars

Amounts per share of common stock:

Basic:

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

Diluted:

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

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

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

ORIX Corporation and its Subsidiaries

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

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

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

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

ORIX Corporation and its Subsidiaries

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ORIX Corporation and its Subsidiaries

1. Significant Accounting and Reporting Policies

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

(a) Basis of presenting financial statements

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

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

(b) Principles of consolidation

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

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

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

(c) Use of estimates

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

(d) Foreign currencies translation

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

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

(e) Recognition of revenues

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

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

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

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

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

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

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

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

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

(f) Insurance premiums and expenses

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

Life insurance benefits are recorded as expenses when they are incurred. Policy liabilities for future policy benefits are established for by the net level premium method, based on actuarial estimates of the amount of future policyholder benefits. The policies are characterized as long-duration policies and mainly consist of endowments, term life insurance and whole life insurance. Computation of policy liabilities and reserves necessarily includes assumptions about mortality, lapse rates and future yields on related investments and other factors applicable at the time the policies are written. The average rates of assumed investment yields are 2.0%, 1.7% and 1.6% for fiscal 2003, 2004 and 2005, respectively. The Company continually evaluates the potential for changes in the estimates and assumptions applied in determining policy liabilities, both positive and negative, and uses the results of these evaluations both to adjust recorded liabilities and to adjust underwriting criteria and product offerings.

FASB Statement No. 60 (Accounting and Reporting by Insurance Enterprises) requires insurance companies to defer certain costs associated with writing insurances (deferred policy acquisition costs) and amortize over the respective policy periods in proportion to anticipated premium revenue. Deferred policy acquisition costs are the costs related to the acquisition of new and renewal insurance policies and consist primarily of first-year commissions in excess of recurring policy maintenance costs and certain variable costs and expenses for underwriting policies. Amortization charged to income for fiscal 2003, 2004 and 2005 amounted to ¥11,740 million, ¥10,017 million and ¥10,359 million (\$96 million), respectively.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

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

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

(h) Impairment of long-lived assets

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

(i) Investment in securities

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

(j) Income taxes

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

(k) Securitized assets

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

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

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

(l) Derivative financial instruments

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

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

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

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

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

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

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

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

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

(m) Pension plans

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

The Company and certain subsidiaries accounted for the transfer to the Japanese Government of a substitutional portion of an employees pension fund in fiscal 2005 in accordance with EITF Issue No. 03-2 (Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities). As specified in EITF Issue No. 03-2, the entire separation process was to be accounted for at the time of completion of the transfer to the government of the benefit obligation and related plan assets as a settlement in accordance with FASB Statement No. 88 (Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits).

(n) Stock-based compensation

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

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

(o) Stock splits

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

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

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

(p) Cash and cash equivalents

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

(q) Restricted cash

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

(r) Other operating assets

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

(s) Other receivables

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

(t) Inventories

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

(u) Office facilities

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

(v) Other assets

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

(w) Goodwill and other intangible assets

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

before July 1, 2001.

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

(x) Trade notes, accounts payable and other liabilities

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

(y) Capitalization of interest costs

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

(z) Advertising

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

(aa) Discontinued operation

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

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

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

(ac) Earnings per share

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Acquisitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

automobile operations and corporate rehabilitation business in Japan.

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

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

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

3. Cash Flow Information

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

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

4. Investment in Direct Financing Leases

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

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

¥ 1,453,575 ¥ 1,451,574 \$ 13,517

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8. Investment in Securities

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

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

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

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

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

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

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

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

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

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

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

March 31, 2004

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

March 31, 2005

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

March 31, 2005

Millions of yen

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Japanese and foreign government bond securities	\$ 42	\$ 1	\$ (2)	\$ 41
Japanese prefectural and foreign municipal bond securities	158	1	(1)	158
Corporate debt securities	2,217	20	(13)	2,224
Mortgage-backed and other asset-backed securities	607	125	(22)	710
Equity securities	176	334	(6)	504
	<u>\$ 3,200</u>	<u>\$ 481</u>	<u>\$ (44)</u>	<u>\$ 3,637</u>

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

The following table provides information about available-for-sale securities with gross unrealized losses and the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2005:

	Millions of yen					
	Less than 12 months		12 months or more		Total	
	Gross unrealized		Gross unrealized		Gross unrealized	
	Fair value	losses	Fair value	losses	Fair value	losses
Japanese and foreign government bond securities	¥ 25	¥	¥ 1,062	¥ (215)	¥ 1,087	¥ (215)
Japanese prefectural and foreign municipal bond securities	102		1,040	(138)	1,142	(138)
Corporate debt securities	16,719	(180)	14,812	(1,152)	31,531	(1,332)
Mortgage-backed and other asset-backed securities	2,006	(644)	852	(1,670)	2,858	(2,314)
Equity securities	2,950	(644)	1,077	(81)	4,027	(725)
	¥ 21,802	¥ (1,468)	¥ 18,843	¥ (3,256)	¥ 40,645	¥ (4,724)

	Millions of U.S. dollars					
	Less than 12 months		12 months or more		Total	
	Gross unrealized		Gross unrealized		Gross unrealized	
	Fair value	losses	Fair value	losses	Fair value	losses
Japanese and foreign government bond securities	\$ 0	\$	\$ 10	\$ (2)	\$ 10	\$ (2)
Japanese prefectural and foreign municipal bond securities	1		10	(1)	11	(1)
Corporate debt securities	156	(1)	138	(11)	294	(12)
Mortgage-backed and other asset-backed securities	19	(6)	7	(16)	26	(22)
Equity securities	27	(6)	10	(1)	37	(7)
	\$ 203	\$ (13)	\$ 175	\$ (31)	\$ 378	\$ (44)

Approximately 100 investment positions, which included mainly foreign corporate securities and commercial mortgage-backed securities, were in an unrealized loss position as of March 31, 2005. The gross unrealized losses on these securities are attributable to a number of factors including changes in interest rates and credit spreads and market trends. As part of its ongoing monitoring process, management has concluded that none of these securities were other-than-temporarily impaired at March 31, 2005. The Company and its subsidiaries have the ability and intent to hold these securities for a time sufficient to recover its amortized cost.

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The following is a summary of the contractual maturities of debt securities classified as available-for-sale securities held at March 31, 2005:

	Millions of yen		Millions of U.S. dollars	
	Amortized cost	Fair value	Amortized cost	Fair value
Due within one year	¥ 44,831	¥ 44,981	\$ 417	\$ 419
Due after one to five years	156,995	158,276	1,462	1,474
Due after five to ten years	83,115	86,440	774	805
Due after ten years	39,786	46,796	371	435
	¥ 324,727	¥ 336,493	\$ 3,024	\$ 3,133

Securities not due at a single maturity date, such as mortgage-backed securities, are included in the above table based on their final maturities.

Certain borrowers may have the right to call or prepay obligations. This right may cause actual maturities to differ from the contractual maturities summarized above.

Included in interest on loans and investment securities in the consolidated statements of income is interest income on investment securities of ¥15,980 million, ¥9,254 million and ¥10,137 million (\$95 million) for fiscal 2003, 2004 and 2005, respectively.

9. Securitization Transactions

During fiscal 2003, 2004 and 2005, the Company and its subsidiaries sold direct financing lease receivables, installment loans and investment in securities in securitization transactions. Certain information with respect to these transactions is as follows:

	Millions of yen	Millions of U.S. dollars
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	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>
Direct financing leases:				
Balance sold	¥ 150,956	¥ 26,284	¥ 97,177	\$ 905
Gains on sales	3,205	170	3,877	36
Interests retained	25,388		66,024	615
Installment loans:				
Balance sold	78,674	9,250	58,184	542
Gains on sales	6,444	276	2,115	20
Interests retained	32,850	263	9,562	89
Investment in securities:				
Balance sold			24,760	231
Gains on sales			6,528	61
Interests retained			37,931	353

Regarding securitizations of direct financing lease receivables, for fiscal 2003, 2004 and 2005, revenues from retained interests of ¥12,348 million, ¥9,542 million and ¥5,640 million (\$53 million), respectively, are included in revenues from direct financing leases in the consolidated statements of income. Regarding securitizations of installment loans, revenues from retained interests of ¥7,075 million, ¥12,175 million and ¥13,371 million (\$125 million) for fiscal 2003, 2004 and 2005, respectively, are included in interest on loans and investment securities in the consolidated statements of income.

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The value of retained interests is subject to credit risk, interest rate risk and prepayment risk on the securitized financial assets. The investors and special-purpose entities have no recourse to the Company or its subsidiaries' other assets for failure of debtors to pay.

As of March 31, 2003, 2004 and 2005, there were no significant servicing assets and liabilities related to the Company and its subsidiaries securitization transactions.

Economic assumptions used in measuring the retained interests related to securitization transactions completed during fiscal 2003, 2004 and 2005 are as follows:

	2003			2004			2005		
	Installment loans			Installment loans			Installment loans		
Direct financing leases	Card loans	Mortgage loans (1)	Direct financing leases	Commercial mortgage loans	Direct financing leases	Commercial mortgage loans	Housing loans	Investment in securities	
Expected credit loss	0.03%-1.70%	0.84%-1.42%	0.69%	0.01%	2.39%	0.97%-1.19%	0.27%-1.59%	1.05%	0.00%
Discount rate	2.35%-5.36%	1.26%-1.35%	0.68%-2.11%	8.35%	1.79%	0.37%-5.01%	0.49%-2.12%	1.04%-3.46%	6.64%-14.28%
Annual prepayment rate (2)		5.95%		19.18%	0.20%-4.39%	19.03%-43.93%	7.52%	0.00%	

(1) Mortgage loans contain commercial mortgage loans and housing loans.

(2) With respect to direct financing leases securitized in fiscal 2003 and 2004 and card loans securitized in fiscal 2003, the Company and its subsidiaries did not make separate assumptions for prepayment rates but considered the effect of prepayments in estimating discount rates or principal payments.

Retained interests from securitization transactions in fiscal 2005 and prior years are recorded in the consolidated balance sheets at March 31, 2005. Key economic assumptions used in measuring the fair value of retained interests as of March 31, 2005, and the impacts of 10% and 20% adverse changes to the assumptions on the fair value are as follows:

2005

Installment loans

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	Direct financing leases	Card loans	Commercial mortgage loans	Housing loans	Investment in securities
Expected credit loss	0.84%-1.35%	2.53%-3.16%	0.27%-4.05%	1.06%	0.00%
Discount rate	0.37%-8.90%	1.14%-1.58%	0.52%-2.21%	1.26%-3.29%	6.64%-14.28%
Annual prepayment rate (3)	0.20%-4.39%		20.41%-43.35%	6.99%	0.00%

- (3) With respect to card loans, a certain subsidiary did not make separate assumptions for prepayment rates but considered the effect of prepayments in estimating principal payments.

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	Millions of yen					Millions of U.S. dollars				
	Installment loans					Installment loans				
	Direct financing	Commercial mortgage	Housing	Investment	Direct financing	Commercial mortgage	Housing	Investment		
	leases	Card loans	loans	loans	in securities	leases	Card loans	loans	loans	in securities
Fair value of retained interests	¥ 112,426	¥ 60,245	¥ 6,419	¥ 9,513	¥ 46,788	\$ 1,047	\$ 561	\$ 60	\$ 89	\$ 436
Weighted average life (in years)	1.6-5.1		2.7	9.9	6.9-7.3	1.6-5.1		2.7	9.9	6.9-7.3
Expected credit loss:										
+10%	552	497	7	37		5	5	0	0	
+20%	1,102	992	14	73		10	9	0	1	
Discount rate:										
+10%	405	134	10	81	249	4	1	0	1	2
+20%	804	268	19	161	469	7	2	0	1	4
Prepayment rate:										
+10%	37		122	147		0		1	1	
+20%	73		231	286		1		2	3	

These sensitivities are hypothetical and should be used with caution. As the amounts indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in the above table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

Certain cash flows received from/(paid) to special-purpose entities for all securitization activities in fiscal 2003, 2004 and 2005 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2003	2004	2005	2005
	Proceeds from new securitizations	¥ 239,050	¥ 35,704	¥ 191,976
Servicing fees received	470	551	274	3
Cash flows received on interests retained	21,201	31,742	31,403	292
Repurchases of ineligible assets	(26,122)	(23,647)	(24,215)	(225)

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Quantitative information about delinquencies, net credit losses, and components of financial assets sold on securitization and other assets managed together in fiscal 2004 and 2005 are as follows:

March 31, 2004

	Millions of yen		
	Total principal amount of receivables	Principal amount of receivables more than 90 days past-due and impaired loans	Net credit losses
Types of assets:			
Direct financing leases	¥ 1,633,875	¥ 36,568	¥ 13,921
Installment loans	2,374,449	136,718	38,658
Total assets managed or sold on securitization	4,008,324	¥ 173,286	¥ 52,579
Less: assets sold on securitization	(319,809)		
Assets held in portfolio	¥ 3,688,515		

The total assets sold on securitization, as of March 31, 2004, are ¥339,943 million, but the assets of ¥20,134 million, of which the Company and certain subsidiaries only continuing involvement is the servicing, are not included in the table above.

March 31, 2005

	Millions of yen			Millions of dollars		
	Total principal amount of receivables	Principal amount of receivables more than 90 days past-due and impaired loans	Net credit losses	Total principal amount of receivables	Principal amount of receivables more than 90 days past-due and impaired loans	Net credit losses
Types of assets:						
Direct financing leases	¥ 1,594,888	¥ 25,733	¥ 10,678	\$ 14,851	\$ 240	\$ 99
Installment loans	2,557,892	112,966	41,972	23,819	1,052	391

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Total assets managed or sold on securitization	¥ 4,152,780	¥ 138,699	¥ 52,650	\$ 38,670	\$ 1,292	\$ 490
Less: assets sold on securitization	(314,609)			(2,930)		
Assets held in portfolio	¥ 3,838,171			\$ 35,740		

The total assets of direct finance leases and installment loans sold on securitization, as of March 31, 2005, are ¥351,200 million (\$3,270 million), but the assets of ¥36,591 million (\$341 million), of which the Company and certain subsidiaries' only continuing involvement is the servicing, are not included in the table above.

A subsidiary entered into a collateralized debt obligation transaction in fiscal 2005 and accounted for the transaction as a sale. The assets sold as a result of the transaction were ¥24,760 million (\$231 million) as of March 31, 2005, and were not included in the table above.

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In fiscal 2005 and prior years, the Company and its subsidiaries entered into other lease receivable securitization programs and other installment loan securitization programs that are not accounted for as sales but for as secured borrowings. The payables under these securitization programs of ¥97,707 million and ¥60,281 million (\$561 million) are included in long-term debt. The collateral under these securitization programs of ¥116,289 million and ¥85,924 million (\$800 million), of ¥22,869 million and ¥9,049 million (\$84 million), and cash collateral of ¥2,911 million and ¥5,457 million (\$51 million) are included in investment in direct financing leases, installment loans and other assets in the consolidated balance sheets as of March 31, 2004 and 2005, respectively.

10. 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) was first issued in January 2003, and effective March 31, 2003, for the SPEs created after January 31, 2003. In December 2003, the revised FASB Interpretation No. 46 (FIN 46(R)) was issued, and all SPEs were tested for consolidation in accordance with FIN 46(R). FIN 46(R) 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 the use of SPEs structure is requested by such customer. 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 ¥16,197 million and ¥12,624 million (\$118 million) as of March 31, 2004 and 2005, and occasionally make investments in these SPEs, which amount to ¥15,937 million and ¥16,498 million (\$154 million) as of March 31, 2004 and 2005, respectively. The Company and its subsidiaries' risk exposure is limited to the amounts of the loans and investments referred to above.

Total assets of such SPEs are ¥201,841 million and ¥189,173 million (\$1,762 million) as of March 31, 2004 and 2005, respectively. 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. The SPEs acquire real estate and/or develop real estate projects.

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ORIX Corporation and its Subsidiaries

The Company and its subsidiaries provide non-recourse loans to SPEs in the aggregate of ¥12,683 million and ¥12,819 million (\$119 million) as of March 31, 2004 and 2005, and/or make investments in these SPEs, which amount to ¥4,840 million and ¥9,795 million (\$91 million) as of March 31, 2004 and 2005, respectively. The Company and its subsidiaries' risk exposure is limited to the amounts of the loans and investments referred to above.

Total assets of such SPEs are ¥34,296 million and ¥62,908 million (\$586 million) as of March 31, 2004 and 2005, respectively. Among those SPEs, total assets of consolidation were ¥8,706 million and ¥15,923 million (\$148 million) as of March 31, 2004 and 2005, respectively. Those assets are mainly included in inventories and investment in operating leases in the consolidated balance sheets.

The consolidated SPEs borrow from financial institutions, and ¥8,040 million and ¥12,138 million (\$113 million) of the SPEs' assets are pledged as collateral for the non-recourse loans as of March 31, 2004 and 2005, respectively. The lenders of the non-recourse loans have no recourse to other assets of the Company and its subsidiaries.

(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 ¥48,809 million and ¥83,856 million (\$781 million) as of March 31, 2004 and 2005, respectively. Those assets are mainly included in investment in operating leases and other operating assets in the consolidated balance sheets as of March 31, 2004 and 2005, respectively.

Certain SPEs borrow non-recourse loans from financial institutions, and ¥11,041 million and ¥10,729 million (\$100 million) of SPEs' assets are pledged as collateral for the non-recourse loans as of March 31, 2004 and 2005, 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

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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 ¥25,991 million (\$242 million) as of March 31, 2005. Those assets are mainly included in installment loans in the consolidated balance sheet as of March 31, 2005.

(e) 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

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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.

11. Investment in Affiliates

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

	Millions of yen		Millions of
	2004	2005	U.S. dollars
Common stock, at equity value	¥ 149,237	¥ 264,669	\$ 2,465
Loans	7,959	9,817	91
	¥ 157,196	¥ 274,486	\$ 2,556

Certain affiliates are listed on stock exchanges. The aggregate investment in and quoted market value of those affiliates amounted to ¥45,548 million and ¥51,884 million, respectively, as of March 31, 2004 and ¥76,495 million (\$712 million) and ¥86,454 million (\$805 million), respectively, as of March 31, 2005.

In fiscal 2003, 2004 and 2005, the Company and its subsidiaries received dividends from affiliates of ¥2,060 million, ¥3,136 million and ¥5,453 million (\$51 million), respectively.

The balance of excess of cost over the underlying equity at acquisition dates of investment in affiliates amounted to ¥31,189 million and ¥26,173 million (\$244 million) as of March 31, 2004 and 2005, respectively.

On March 30, 2002, the Company acquired approximately a 22% interest in The Fuji Fire and Marine Insurance Company Limited (Fuji) for ¥18,105 million (As a result of increase of treasury stock, the share of interest became 25% as of March 31, 2005). Upon completion of valuation of Fuji s assets and liabilities during fiscal 2003 it was determined that the fair value of Fuji s assets and liabilities exceeded the purchase price paid. The excess remaining after first reducing non-current assets to zero was recorded as an extraordinary gain of ¥3,214 million, net of tax of ¥2,206 million, in fiscal 2003.

During fiscal 2003, the Company acquired an interest in two affiliates accounted for under the equity method for which the purchase price allocation was not complete as of March 31, 2003. Upon completion of valuation of investee assets and liabilities during fiscal 2004 it was determined that the fair value of investee assets and liabilities

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exceeded the purchase price paid. This excess of fair value of the Company's proportionate interest in the net assets of investees upon acquisition has been recorded first as a reduction of non-current assets of the investees with the excess reported as an extraordinary gain of ¥609 million, net of tax of ¥421 million, during fiscal 2004.

The Company formed a consortium with the Hanwha Group (a conglomerate or chaebol located in the Republic of Korea), and Macquarie Life Limited (a life insurance company located in Australia). The consortium entered into a stock purchase agreement (Purchase Agreement) with Korea Deposit Insurance Corporation, and acquired 51% of the outstanding shares of Korea Life Insurance Co., Ltd. (KLI) on December 12, 2002. Pursuant to the Purchase Agreement, the Company acquired 17% of the outstanding shares for approximately 275 billion Korean won (¥27,778 million). Since the Company, through the Consortium Agreement and the Shareholders Agreement, has the ability to influence the operations and the financial policies of KLI, the Company accounts for this investment by the equity method.

On June 11, 2002, ORIX JREIT Inc. (ORIX JREIT), a wholly-owned Japanese real estate investment corporation as of March 31, 2002, completed an initial public offering of its investment units, which had been previously issued by ORIX JREIT to the Company. Through this initial public offering, the Company as a unitholder sold to investors 80% or 98,700 units out of 123,372 units of the outstanding units of ORIX JREIT and recognized a ¥3,174 million gain included in other operating revenues in the accompanying consolidated statements of income in fiscal 2003. The Company received aggregate net cash proceeds from the sale of ¥49,528 million or ¥501,800 per unit.

Subsequent to the initial public offering, the Company accounted for the remaining investment in ORIX JREIT using the equity method of accounting. In addition, ORIX JREIT entered into an asset management agreement with one of the Company's subsidiaries and paid ¥470 million of management fees from June 2002 to March 2003 for fiscal 2003, ¥847 million for fiscal 2004 and ¥915 million (\$9 million) for fiscal 2005, respectively.

The Company and its subsidiaries sold office buildings under operating leases to ORIX JREIT and recognized ¥7,617 million of gains on the sales, which were included in gains on sales of real estate under operating leases in the accompanying consolidated statements of income for fiscal 2004. The related intercompany profits have been eliminated based on the Company's proportionate share under the equity method. There were no sales of assets by the Company and its subsidiaries to ORIX JREIT for fiscal 2005.

During fiscal 2004, ORIX JREIT issued 52,000 units of ORIX JREIT to the public at an issue price of ¥463,873 per unit, receiving aggregate proceeds of ¥24,121 million. As a result of the issuance of new units, the ownership interest of the Company and its subsidiary in ORIX JREIT decreased from 21% to 15%. Because the issuance price per unit issued by ORIX JREIT was less than the average carrying amount per unit of the Company and the subsidiary, the Company and the subsidiary were required to adjust the carrying amounts of their investments in ORIX JREIT by ¥396 million and recognized losses in earnings. In addition, due to the sale of the Company and the subsidiary holding interest, the subsidiary has 10% interest as of March 31, 2005.

On March 25, 2005, the Company acquired approximately an additional 42% interest and certain preferred stock in DAIKYO INCORPORATED for ¥46,565 million (\$434 million), for which the purchase price allocation was not completed as of March 31, 2005.

Companies comprising a significant portion of investment in affiliates are DAIKYO INCORPORATED (44% of equity share), Stockton Holdings Limited (27%), The Fuji Fire and Marine Insurance Company Limited (25%) and Korea Life Insurance Co., Ltd. (17%).

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Combined and condensed information relating to the affiliates accounted for by the equity method for fiscal 2003, 2004 and 2005 are as follows (some operation data for entities reflect only the period since the Company made the investment and on the lag basis as described above):

	Millions of yen			Millions of U.S. dollars
	2003	2004	2005	2005
Operations:				
Total revenues	¥ 378,761	¥ 1,272,013	¥ 1,470,624	\$ 13,694
Income before income taxes	44,887	111,109	148,636	1,384
Net income	34,593	93,734	107,809	1,004
Financial position:				
Total assets	¥ 5,307,035	¥ 5,528,819	¥ 6,960,937	\$ 64,819
Total liabilities	5,104,873	5,181,197	6,257,525	58,269
Shareholders' equity	202,162	347,622	703,412	6,550

The Company had no significant transactions with these companies except as described above.

12. Goodwill and Other Intangible Assets

Changes in goodwill by reportable segment for fiscal 2003, 2004 and 2005 are as follows:

	Millions of yen									
	Corporate financial services	Automobile operations	Equipment operating leases	Real estate -related finance	Real estate	Life insurance	Other	The Americas	Asia, Oceania and Europe	Total
Balance at March 31, 2002	¥ 338	¥ 746	¥	¥ (737)	¥ (171)	¥ 4,452	¥ 167	¥ 7,442	¥ 2,926	¥ 15,163
Acquired	256	15		3,002			54		71	3,398
Impairment									(274)	(274)
Other (net) (1)				737	171			(705)	20	223
Current period change	256	15		3,739	171		54	(705)	(183)	3,347

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Balance at March 31, 2003	594	761	3,002	4,452	221	6,737	2,743	18,510
Acquired		832			398			1,230
Impairment		(464)						(464)
Other (net) (1)			(693)		(53)	(964)	18	(1,692)
Current period change		368	(693)		345	(964)	18	(926)
Balance at March 31, 2004	594	1,129	2,309	4,452	566	5,773	2,761	17,584
Acquired	440			237	1,653			2,330
Impairment	(251)							(251)
Other (net) (1)		(848)			(210)	113	(417)	(1,362)
Current period change	189	(848)		237	1,443	113	(417)	717
Balance at March 31, 2005	¥ 783	¥ 281	¥ 2,309	¥ 237	¥ 4,452	¥ 2,009	¥ 5,886	¥ 18,301

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Millions of U.S. dollars

	Corporate financial services	Automobile operations	Equipment operating leases	Real estate -related finance	Real estate	Life insurance	Other	The Americas	Asia, Oceania and Europe	Total
Balance at March 31, 2004	\$ 6	\$ 11	\$	\$ 22	\$ 2	\$ 41	\$ 5	\$ 54	\$ 25	\$ 164
Acquired	4				2		15			21
Impairment	(2)									(2)
Other (net) (1)		(8)					(2)	1	(4)	(13)
Current period change	2	(8)			2		13	1	(4)	6
Balance at March 31, 2005	\$ 8	\$ 3	\$	\$ 22	\$ 2	\$ 41	\$ 18	\$ 55	\$ 21	\$ 170

(1) Other includes effect of an adoption of FASB Statement No. 141, foreign currency translation adjustments and certain other reclassifications.

Other intangible assets at March 31, 2004 and 2005 consist of the following:

	Millions of yen		U.S. dollars
	2004	2005	2005
Intangible assets not subject to amortization	¥ 3,361	¥ 4,598	\$ 43
Intangible assets subject to amortization:			
Software	36,913	45,323	422
Others	8,455	8,459	79
	45,368	53,782	501
Accumulated amortization	(21,399)	(28,415)	(265)
Net	23,969	25,367	236
	¥ 27,330	¥ 29,965	\$ 279

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The aggregate amortization expenses for the net carrying amount of intangible assets are ¥7,440 million, ¥7,603 million and ¥7,966 million (\$74 million) in fiscal 2003, 2004 and 2005, respectively.

The estimated amortization expenses for each of the five succeeding fiscal years are ¥7,126 million (\$66 million) in fiscal 2006, ¥6,301 million (\$59 million) in fiscal 2007, ¥4,693 million (\$44 million) in fiscal 2008, ¥3,144 million (\$29 million) in fiscal 2009 and ¥1,431 million (\$13 million) in fiscal 2010, respectively.

13. Short-Term and Long-Term Debt

Short-term debt consists of notes payable to banks, bank overdrafts and commercial paper.

The composition of short-term debt and the weighted average interest rate on short-term debt at March 31, 2004 and 2005 are as follows:

March 31, 2004

	<u>Millions of yen</u>	<u>Weighted average rate</u>
Short-term debt in Japan, mainly from banks	¥ 241,746	1.5%
Short-term debt outside Japan, mainly from banks	241,890	2.7
Commercial paper in Japan	417,854	0.1
Commercial paper outside Japan	2,426	1.6
	<u>¥ 903,916</u>	<u>1.2</u>

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March 31, 2005

	Millions of yen	Millions of U.S. dollars	Weighted average rate
Short-term debt in Japan, mainly from banks	¥ 175,342	1,633	1.2%
Short-term debt outside Japan, mainly from banks	243,649	2,269	4.1
Commercial paper in Japan	528,046	4,917	0.1
Commercial paper outside Japan	834	7	1.5
	<u>¥ 947,871</u>	<u>\$ 8,826</u>	<u>1.3</u>

Long-term debt at March 31, 2004 and 2005 consists of the following:

March 31, 2004

	Due	Millions of yen
Banks:		
Fixed rate: 0.9% to 7.2%	2005-2014	¥ 124,031
Floating rate: principally based on LIBOR plus 0.2% to 0.8%	2005-2021	790,947
Insurance companies and others:		
Fixed rate: 0.5% to 6.7%	2005-2014	379,788
Floating rate: principally based on LIBOR plus 0.0% to 0.8%	2005-2021	248,972
Unsecured 0.6% to 3.1% bonds	2005-2013	744,113
Unsecured 0.0% to 0.4% convertible bonds	2005-2007	68,473
Unsecured 0.6% to 1.6% bonds with warrants	2005-2006	3,400
Unsecured 0.0% bond with stock acquisition rights	2023	45,956
Unsecured 0.0% to 6.1% notes under medium-term note program	2005-2013	159,332
0.4% to 3.0% payables under securitized lease receivables	2006-2009	76,393
0.5% to 5.8% payables under securitized loan receivables	2005-2010	21,314
		<u>¥ 2,662,719</u>

March 31, 2005

		Millions of	
	Due	Millions of yen	U.S. dollars
Banks:			
Fixed rate: 0.6% to 7.5%	2006-2020	¥ 110,079	\$ 1,025
Floating rate: principally based on LIBOR plus 0.0% to 0.8%	2006-2021	1,030,897	9,600
Insurance companies and others:			
Fixed rate: 0.5% to 6.6%	2006-2014	392,386	3,654
Floating rate: principally based on LIBOR plus 0.0% to 0.6%	2006-2021	257,590	2,399
Unsecured 0.6% to 3.1% bonds	2006-2015	818,000	7,617
Unsecured 0.0% convertible bond	2007	28,315	263
Unsecured 0.6% bond with warrants	2006	1,600	15
Unsecured 0.0% bond with stock acquisition rights	2023	48,940	456
Unsecured 0.0% to 7.0% notes under medium-term note program	2006-2013	113,775	1,059
0.2% to 3.0% payables under securitized lease receivables	2006-2009	48,875	455
0.8% to 5.8% payables under securitized loan receivables	2006-2008	11,406	106
		¥ 2,861,863	\$ 26,649

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The repayment schedule for the next five years and thereafter for long-term debt at March 31, 2005 is as follows:

Years ending March 31,	Millions of yen	Millions of U.S. dollars
2006	¥ 728,171	\$ 6,781
2007	574,171	5,346
2008	473,966	4,413
2009	389,689	3,629
2010	394,977	3,678
Thereafter	300,889	2,802
Total	¥ 2,861,863	\$ 26,649

For borrowings from banks, insurance companies and other financial institutions, and for bonds, interest payments are usually paid semi-annually and principal repayments are made upon maturity of the loan contracts or bonds. For medium-term notes, interest payments are mainly made annually and principal is repaid upon maturity of the notes.

The Company issued a Euro yen convertible bond of ¥28,840 million (added premium of ¥840 million) in December 2001. This is currently convertible into approximately 1,892,000 shares of common stock at fixed conversion price of ¥14,800.00 per share. The conversion price shall be adjusted, if the Company issues new shares at less than the current market price of the shares.

The Company issued an unsecured Japanese yen bond with warrants. This bond was issued in conjunction with compensation plans that is described in Note 17. Stock-Based Compensation. This bond in the amount of ¥1,600 million (excluding value of warrants) was issued at par in July 2001.

The Company issued Liquid Yield Option Notes of \$400 million, net of unamortized discount of \$622 million, in June 2002. The bond has stock acquisition rights that are currently convertible into approximately 3,136,000 shares of common stock at a conversion price of \$127.44 per share. The stock acquisition rights may be exercised (1) if the closing price at Tokyo Stock Exchange for the shares for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of such quarter is more than specified conversion trigger price which will be accreted from \$140.48 for the quarter including the date of issuance to \$355.05 for the quarter ending the date of the bond maturity, (2) during any period in which the issuer rating or the long-term senior debt credit rating assigned to the Company is below a specified level, (3) if the bond is called for redemption or (4) if specified corporate transactions have occurred.

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Total committed lines for the Company and its subsidiaries were ¥875,797 million and ¥895,805 million (\$8,342 million) at March 31, 2004 and 2005, respectively, and, of these lines, ¥765,608 million and ¥795,935 million (\$7,412 million) were available at March 31, 2004 and 2005, respectively. Of the available committed lines, ¥97,664 million and ¥85,427 million (\$795 million) were long-term committed credit lines at March 31, 2004 and 2005, respectively.

As of March 31, 2004 and 2005, ¥64,000 million and ¥118,250 million (\$1,101 million) of the total committed lines were restricted for commercial paper backup purposes, and no borrowings were made under these lines at each balance sheet date.

Some of the debt and commitment contracts contain covenant clauses. The covenants include select objective requirements relating to the need for the Company and its subsidiaries to maintain prescribed levels of equity or credit rating issued by the rating agencies. As of March 31, 2005, the Company and its subsidiaries were in compliance with such objective covenant requirements.

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The agreements related to debt payable to banks provide that the banks under certain circumstances may request additional security for loans and have the right to offset cash deposited against any short-term or long-term debt that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks.

In addition to the minimum lease payments receivable related to the payables under securitized lease receivables described in Note 9.

Securitization Transactions, and the real estate that SPEs described in Note 10 (b)(c). 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 March 31, 2005:

	Millions of	
	Millions of yen	U.S. dollars
Minimum lease payments, loans and future rentals	¥ 47,566	\$ 443
Investment in securities (include repurchase facilities of ¥68,605 million (\$639 million))	83,881	781
Other operating assets and office facilities, net	9,502	88
	¥ 140,949	\$ 1,312

As of March 31, 2005, securities and other assets of ¥2,806 million (\$26 million) were pledged for collateral security deposits.

As of March 31, 2005, a subsidiary pledged borrowed bonds through security lending transactions with the fair values of ¥22,173 million (\$206 million) for collateral security deposits.

Under agreements with customers on brokerage business, a subsidiary received customers' securities with an approximate value of ¥62,888 million (\$586 million) as of March 31, 2005, that may be sold or repledged by the subsidiary. As of March 31, 2005, ¥33,524 million (\$312 million) at market value of the securities are repledged as collateral for short-term debt.

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.

14. Deposits

Deposits at March 31, 2004 and 2005 consist of the following:

	Millions of yen		Millions of
			U.S. dollars
	2004	2005	2005
Time deposits	¥ 242,102	¥ 282,250	\$ 2,628
Other deposits	50,443	54,338	506
Total	¥ 292,545	¥ 336,588	\$ 3,134

The balances of time deposits, including certificates of deposit, issued in amounts of ¥10 million (\$93 thousand) or more were ¥159,873 million and ¥191,619 million (\$1,784 million) at March 31, 2004 and 2005, respectively.

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The maturity schedule of time deposits at March 31, 2005 is as follows:

<u>Years ending March 31,</u>	Millions of	
	Millions of yen	U.S. dollars
2006	¥ 118,426	\$ 1,103
2007	50,518	470
2008	48,263	449
2009	12,114	113
2010	52,929	493
Total	¥ 282,250	\$ 2,628

15. Income Taxes

Income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes, and the provision for income taxes in fiscal 2003, 2004 and 2005 are as follows:

	Millions of yen			Millions of
	2003	2004	2005	U.S. dollars
Income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes:				
Domestic	¥ 35,390	¥ 79,372	¥ 117,978	\$ 1,098
Foreign	9,996	22,582	36,369	339
	¥ 45,386	¥ 101,954	¥ 154,347	\$ 1,437
Provision for income taxes:				
Current				
Domestic	¥ 43,152	¥ 50,140	¥ 47,138	\$ 439
Foreign	878	4,185	6,155	57
	44,030	54,325	53,293	496

Deferred				
Domestic	(28,521)	(11,733)	4,160	39
Foreign	5,299	8,852	11,373	106
	(23,222)	(2,881)	15,533	145
Provision for income taxes	¥ 20,808	¥ 51,444	¥ 68,826	\$ 641

The Company and its domestic subsidiaries were subject to a National Corporate tax of 30%, an Inhabitant tax of approximately 6% and a deductible Enterprise tax of approximately 10%, which in the aggregate resulted in a statutory income tax rate of approximately 42% in fiscal 2003 and 2004. The Amendments to Local Tax Laws, which were enacted on March 31, 2003 (effective from April 1, 2004), decreased the statutory tax rate to approximately 40.7%. During fiscal 2004, the statutory tax rate increased to 40.9%, due to the tuning of tax rate by each local tax authority. In fiscal 2005, the Company and its domestic subsidiaries 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 result in a statutory income tax rate of 40.9%.

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Reconciliation of the differences between tax provision computed at the statutory rate and consolidated provisions for income taxes in fiscal 2003, 2004 and 2005 are as follows:

	Millions of yen			Millions of U.S. dollars
	2003	2004	2005	2005
	_____	_____	_____	_____
Income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes	¥ 45,386	¥ 101,954	¥ 154,347	\$ 1,437
Tax provision computed at statutory rate	¥ 19,062	¥ 42,821	¥ 63,128	\$ 588
Increases (reductions) in taxes due to:				
Change in valuation allowance	2,597	1,019	(3,960)	(37)
Charge-off of deferred tax assets recognized for excess of the tax basis over the amounts for financial reporting of investments in subsidiaries		5,586		
Non-deductible expenses for tax purposes	1,013	744	1,009	9
Effect of a change in tax rate	(2,420)	724		
Effect of lower tax rates on foreign subsidiaries and domestic life insurance subsidiary	(705)	(1,225)	(1,327)	(12)
Effect of foreign subsidiaries undistributed earnings no longer permanently reinvested			5,855	55
Other, net	1,261	1,775	4,121	38
Provision for income taxes	¥ 20,808	¥ 51,444	¥ 68,826	\$ 641

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 domestic life insurance subsidiary.

Under the provisions of FASB Statement No. 109 (Accounting for Income Taxes), the effect of a change in tax laws or rates is included in income in the period the change is enacted and includes a cumulative recalculation of deferred tax balances based on the new tax laws or rates. As a result, the net deferred tax liability decreased ¥2,420 million, which decreased the provision for income taxes in fiscal 2003, and increased ¥724 million which increased the provision for income taxes in fiscal 2004.

In fiscal 2004, ¥5,586 million of deferred tax assets which had been recognized for excess of the tax basis over the amounts for financial reporting of investments in subsidiaries was written down; due to the change in the management's future tax plan, the temporary differences for these deferred tax assets will no longer reverse in the foreseeable future and, accordingly, should no longer be recognized.

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In fiscal 2005, a deferred tax liability of ¥5,855 million (\$55 million) was recognized because the Company determined not to permanently reinvest undistributed earnings of certain foreign subsidiaries.

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Total income taxes recognized in fiscal 2003, 2004 and 2005 are as follows:

	Millions of yen			Millions of U.S. dollars
	2003	2004	2005	2005
	2003	2004	2005	2005
Provision for income taxes	¥ 20,808	¥ 51,444	¥ 68,826	\$ 641
Income tax on discontinued operations	388	2,015	4,062	38
Income tax on extraordinary gain	2,206	421		
Income tax on cumulative effect of a change in accounting principle	353			
Income tax on other comprehensive income (loss):				
Net unrealized gains (losses) on investment in securities	(7,046)	15,179	7,564	70
Minimum pension liability adjustments	1,986	(2,573)	4,781	45
Foreign currency translation adjustments	(835)	(3,192)	81	1
Net unrealized gains (losses) on derivative instruments	(445)	2,111	1,865	17
Total income taxes	¥ 17,415	¥ 65,405	¥ 87,179	\$ 812

The tax effects of temporary differences giving rise to the deferred tax assets and liabilities at March 31, 2004 and 2005 are as follows:

	Millions of yen		Millions of U.S. dollars
	2004	2005	2005
	2004	2005	2005
Assets:			
Net operating loss carryforwards	¥ 14,325	¥ 9,424	\$ 88
Allowance for doubtful receivables on direct financing leases and probable loan losses	35,179	33,007	307
Other operating assets	3,703	3,703	35
Accrued expenses	11,219	9,176	85
Other	17,127	14,400	134
	81,553	69,710	649
Less: valuation allowance	(13,908)	(10,036)	(93)
	67,645	59,674	556

	Millions of yen		Millions of U.S. dollars
	2004	2005	2005
Liabilities:			
Investment in direct financing leases	101,647	84,203	784
Investment in operating leases	5,280	3,455	32
Investment in securities	17,214	22,143	206
Deferred insurance policy acquisition costs	11,640	11,468	107
Policy liabilities	4,040	8,765	82
Undistributed earnings	21,719	43,376	404
Prepaid benefit cost	10,937	12,161	113
Other	2,845	10,465	98
	<u>175,322</u>	<u>196,036</u>	<u>1,826</u>
Net deferred tax liability	<u>¥ 107,677</u>	<u>¥ 136,362</u>	<u>\$ 1,270</u>

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

Valuation allowance is mainly recognized for deferred tax assets of consolidated subsidiaries with net operating loss carryforwards for tax purposes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and tax loss carryforwards are utilizable. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company and its subsidiaries will realize the benefits of these deductible temporary differences and tax loss carryforwards, net of the existing valuation allowances at March 31, 2005. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. The net changes in the total valuation allowance were increases of ¥2,412 million and ¥763 million in fiscal 2003 and 2004 and a decrease of ¥3,872 million (\$36 million) in fiscal 2005, respectively. As of March 31, 2005, a deferred tax liability has not been recognized for ¥72,779 million (\$678 million) of undistributed earnings of foreign subsidiaries where the Company intends to reinvest permanently. The deferred tax liability will be recognized when the Company is no longer able to demonstrate that it plans to permanently reinvest undistributed earnings.

Certain subsidiaries have net operating loss carryforwards of ¥40,180 million (\$374 million) at March 31, 2005, which expire as follows:

<u>Year ending March 31,</u>	<u>Millions of yen</u>	<u>Millions of U.S. dollars</u>
2006	¥ 791	\$ 7
2007	1,132	11
2008	914	9
2009	1,023	10
2010	145	1
Thereafter	36,175	336
Total	¥ 40,180	\$ 374

Net deferred tax assets and liabilities at March 31, 2004 and 2005 are reflected in the accompanying consolidated balance sheets under the following captions:

	<u>Millions of yen</u>		<u>Millions of U.S. dollars</u>
	<u>2004</u>	<u>2005</u>	<u>2005</u>
Other assets	¥ 14,557	¥ 19,245	\$ 179

Income taxes: deferred	122,234	155,607	1,449
	<u> </u>	<u> </u>	<u> </u>
Net deferred tax liability	¥ 107,677	¥ 136,362	\$ 1,270
	<u> </u>	<u> </u>	<u> </u>

16. Pension Plans

The Company and certain subsidiaries have trusted contributory and non-contributory funded pension plans covering substantially all of their employees. Those trusted 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 to pension payments. The amounts of such payments are determined on the basis of length of service and remuneration at the time of termination in some defined benefit pension plans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

The Company had tax qualified pension plan in which the benefit was determined on the basis of length of service and remuneration at the time of termination. However, effective July 1, 2004, the Company amended its tax qualified pension plan to a cash balance pension plan and a defined contribution pension plan. The cash balance plan is regarded as a defined benefit pension plan and under the cash balance pension plan, each participant has an account, which is calculated yearly based on the current rate of pay, job title, job class and market-related interest rate.

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.

In June 2001, the Japanese pension law was amended to permit an employer to elect to transfer the entire substitutional portion of benefit obligation from the employees' pension fund (EPF) to the government together with a specified amount of plan assets determined pursuant to a government formula. In fiscal 2004, the Company and certain subsidiaries received government approval of exemption from the obligation for benefits related to future employee service with respect to the substitutional portion of its EPF. In fiscal 2005, the Company and certain subsidiaries received government approval of exemption from the obligation for benefits related to past employee service with respect to the substitutional portion of its EPF and transferred the benefit obligation of the substitutional portion as well as the related government-specified portion of plan assets of the EPF to the government. As a result of the completion of the transfer, the Company and certain subsidiaries recognized: a gain on a subsidy from the government of ¥12,425 million (\$115 million), a gain on the reversal of retirement benefit liabilities as a result of derecognition of previously accrued salary progression at the time of settlement for the substitutional portion of ¥2,618 million (\$25 million), and a loss of ¥14,470 million (\$135 million) to liquidate the plan, which mainly include amortization of unrecognized actuarial loss. The net impact of the above was a gain of ¥573 million (\$5 million), which was recorded as a reduction in selling, general and administrative expenses in the consolidated statements of income.

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The funded status of the defined benefit pension plans, a substantial portion of which consists of domestic pension plans, as of March 31, 2004 and 2005 is as follows:

	Millions of yen		Millions of U.S. dollars
	2004	2005	2005
Change in benefit obligation:			
Benefit obligation at beginning of year	¥ 74,688	¥ 81,184	\$ 756
Service cost	3,737	2,872	27
Interest cost	1,655	1,643	15
Plan participants' contributions	255		
Plan amendments		(10,287)	(96)
Actuarial loss	2,478	2,576	24
Foreign currency exchange rate change	(484)	67	1
Benefits paid	(1,522)	(1,865)	(17)
Plan curtailment	(132)		
Settlements	(407)		
Transfer of the substitutional portion of EPF		(24,670)	(230)
Acquisition and other	916	858	8
	<u>¥ 81,184</u>	<u>¥ 52,378</u>	<u>\$ 488</u>
Change in plan assets:			
Fair value of plan assets at beginning of year	¥ 54,492	¥ 66,684	\$ 621
Actual return on plan assets	6,457	2,768	26
Employer contribution	6,925	6,499	61
Plan participants' contributions	255		
Benefits paid	(1,371)	(1,618)	(15)
Foreign currency exchange rate change	(287)	44	0
Settlements	26		
Transfer of the substitutional portion of EPF		(9,627)	(90)
Acquisition and other	187	514	5
	<u>¥ 66,684</u>	<u>¥ 65,264</u>	<u>\$ 608</u>
The funded status of the plans:			
Funded status	¥ (14,500)	¥ 12,886	\$ 120
Unrecognized prior service cost	(2,545)	(12,039)	(112)
Unrecognized net actuarial loss	39,587	24,248	226
Unrecognized net transition obligation	351	364	3
	<u>¥ 22,893</u>	<u>¥ 25,459</u>	<u>\$ 237</u>

	¥	¥	\$
Amount recognized in the consolidated balance sheets consists of:			
Prepaid benefit cost	26,740	29,734	277
Accrued benefit liability	(17,376)	(6,156)	(57)
Intangible asset	84	94	1
Accumulated other comprehensive loss, gross of tax	13,445	1,787	16
Net amount recognized	22,893	25,459	237

The accumulated benefit obligations for all defined benefit pension plans were ¥66,642 million and ¥41,597 million (\$387 million), respectively, at March 31, 2004 and 2005.

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The aggregate projected benefit obligations, aggregate accumulated benefit obligations and aggregate fair values of plan assets for the plans with the accumulated benefit obligations in excess of plan assets were ¥35,918 million, ¥31,733 million and ¥15,069 million, respectively, at March 31, 2004 and ¥16,191 million (\$151 million), ¥12,722 million (\$118 million) and ¥7,409 million (\$69 million), respectively, at March 31, 2005.

Net pension cost of the plans for fiscal 2003, 2004 and 2005 consists of the following:

	Millions of yen			Millions of U.S. dollars
	2003	2004	2005	2005
Service cost	¥ 4,060	¥ 3,737	¥ 2,872	\$ 27
Interest cost	1,728	1,655	1,643	15
Expected return on plan assets	(1,534)	(1,231)	(1,375)	(13)
Amortization of unrecognized transition obligation	11	8	1	0
Amortization of unrecognized net actuarial loss	1,588	2,386	2,065	20
Amortization of unrecognized prior service cost	(272)	(272)	(767)	(7)
Plan curtailment and settlements	13	229	27	0
Settlement loss resulting from transfer of substitutional portion of EPF			11,852	110
Net periodic pension cost	¥ 5,594	¥ 6,512	¥ 16,318	\$ 152

In addition to the above net pension cost, the Company and certain subsidiaries recognized a gain on a subsidy from the government of ¥12,425 million (\$115 million), in relation to the transfer of the substitutional portion of EPF. Including the above settlement loss resulting from the transfer of the substitutional portion of EPF, a net gain of ¥573 million (\$5 million) in relation to transfer of the substitutional portion of EPF was recorded as a reduction in selling, general and administrative expenses in the consolidated statements of income.

The Company and certain subsidiaries use a March 31 measurement date for the majority of its plans.

Significant assumptions of domestic and foreign pension plans used to determine these amounts are as follows:

<u>Domestic</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
-----------------	-------------	-------------	-------------

Weighted-average assumptions used to determine benefit obligations at March 31:			
Discount rate	2.0%	2.0%	2.0%
Rate of increase in compensation levels	1.7%	1.9%	5.0%

Weighted-average assumptions used to determine net periodic pension cost for years ended March 31:			
Discount rate	2.5%	2.0%	2.0%
Rate of increase in compensation levels	2.2%	1.7%	1.9%
Expected long-term rate of return on plan assets	2.5%	2.0%	1.8%

Overseas	2003	2004	2005
Weighted-average assumptions used to determine benefit obligations at March 31:			
Discount rate	6.3%	5.7%	5.7%
Rate of increase in compensation levels	4.0%	0.1%	0.3%
Weighted-average assumptions used to determine net periodic pension cost for years ended March 31:			
Discount rate	7.0%	6.3%	5.7%
Rate of increase in compensation levels	4.3%	4.0%	0.1%
Expected long-term rate of return on plan assets	9.3%	8.5%	8.3%

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

In consequence of the amendment of the Company's pension plan to a cash balance pension plan, the rate of the increase in compensation levels used to determine benefit obligations of the domestic plans at March 31, 2005 included not only the rate of the increase in the base salary but also the rate of the increase in the amounts credited to the participants' accounts of the cash balance plan, which resulted from participants' job titles and the promotion of their job classes.

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

The asset allocation for the Company and certain subsidiaries' pension plans at March 31, 2004 and 2005 are as follows:

	<u>2004</u>	<u>2005</u>
Equity securities	30.2%	42.3%
Debt securities	31.4	44.4
Life insurance company general accounts	6.2	7.0
Short-term financial instruments	31.0	5.0
Other	1.2	1.3
	<u> </u>	<u> </u>
Total	100.0%	100.0%
	<u> </u>	<u> </u>

Life insurance company general accounts in the above table are accounts with guaranteed capital and minimum interest rate, in which life insurance companies manage funds on several contracts.

The Company and certain subsidiaries' investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants. The Company and certain subsidiaries formulate a policy portfolio appropriate to produce the expected long-term rate of return on plan assets, and ensure that plan assets are allocated under this policy portfolio. The Company and certain subsidiaries periodically have an external consulting firm monitor the results of actual return and revise the policy portfolio if necessary.

Equity securities in which the Company and certain subsidiaries invest as pension plan assets include units of ORIX JREIT Inc. in the amounts of ¥203 million and ¥199 million (\$2 million) at March 31, 2004 and 2005, respectively.

The Company and certain subsidiaries expect to contribute ¥5,943 million (\$55 million) to those pension plans during the year ending March 31, 2006.

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At March 31, 2005, the benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter are as follows:

Years ending March 31,	Millions of yen	Millions of U.S. dollars
2006	¥ 1,478	\$ 14
2007	1,551	14
2008	1,585	15
2009	1,796	17
2010	1,857	17
2011-2015	11,512	107
Total	¥ 19,779	\$ 184

In addition, directors and corporate auditors of certain subsidiaries receive lump-sum payments upon termination of their services under unfunded termination plans. The amount required based on length of service and remuneration to date under these plans is fully accrued.

The Company abolished this unfunded termination plans at June 2003.

Total costs charged to income for all the plans including the defined benefit plans are ¥7,094 million, ¥9,564 million and ¥4,961 million (\$46 million), in fiscal 2003, 2004 and 2005, respectively. The gain on a subsidy from the government of ¥12,425 million (\$115 million) and the settlement loss of ¥11,852 million (\$110 million) resulting from transfer of substitutional portion of EPF were included in those costs in fiscal 2005.

17. Stock-Based Compensation

The Company has four types of stock-based compensation plans as incentive plans for directors, corporate executive officers, corporate auditors and selected employees.

In fiscal 1999, 2000 and 2001, the Company granted stock options to directors, corporate executive officers and certain employees of the Company and the stock options vested immediately except for the fiscal 2001 plan which had a vesting period of three years and the exercise periods are 9.75, 9.7 and 10 years from the grant date, respectively. Under the plans, option holders have the right to purchase in the aggregate

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146,000, 145,000 and 316,700 treasury shares of the Company for options granted during fiscal 1999, 2000 and 2001, respectively. The grant of the rights to purchase treasury shares was accounted for under the intrinsic value method allowed per FASB Statement No. 123 (Accounting for Stock-Based Compensation).

In fiscal 2001 and 2002, the Company issued unsecured bonds with detachable warrants. Simultaneously with the issuance of the unsecured bonds, the Company purchased all of the detachable warrants from the underwriters and distributed such warrants to corporate auditors and certain employees of the Company and to directors, corporate auditors and certain employees of subsidiaries. The warrants issued in fiscal 2001 and 2002 vested immediately with an exercise period of four years. By exercising the warrants, the warrant holders can purchase in the aggregate, 126,143 and 124,303 shares of the Company granted for each fiscal year. The issuance of the warrants was accounted for under the intrinsic value method allowed per FASB Statement No. 123.

In fiscal 2002, the Company granted another option plan of which the vesting period was two years and the exercise period was 10 years from the grant date. Under this plan, the Company issued warrants to directors, corporate executive officers and certain employees of the Company to purchase, in the aggregate, 300,900 shares of the Company's common stock at an exercise price. The issuance of the warrants was accounted for under the intrinsic value method allowed per FASB Statement No. 123.

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

In fiscal 2003, 2004 and 2005, the Company granted stock acquisition rights that had a vesting period of 1.67, 1.92 and 1.92 years and an exercise period of 9.67, 9.92 and 9.92 years, respectively. The acquisition rights were to purchase, in the aggregate, 453,300, 516,000 and 528,900 shares of the Company's common stock at an exercise price. The acquisition rights were distributed to directors, corporate executive officers, corporate auditors and certain employees of the Company, subsidiaries and affiliated companies. The issuance of the stock acquisition rights was accounted for under the intrinsic value method allowed per FASB Statement No. 123.

The Board of Directors intends to obtain approval from shareholders, at the next general meeting, to be held on June 21, 2005, for an additional grant of stock acquisition rights for 580,000 shares, to directors, corporate executive officers, corporate auditors and certain employees of the Company, subsidiaries and affiliated companies during the year ending March 31, 2006.

For all plans above, the exercise prices, which are determined by a formula linked to the stock price of the Company's shares on the Tokyo Stock Exchange, are equal or greater than the fair market value of the Company's shares at the grant dates.

The fair value of these stock options was estimated using the Black-Scholes option pricing model under the following assumptions:

	2003	2004	2005	2005
Grant-date fair value	¥ 3,126	¥ 3,351	¥ 5,917	\$ (55.10)
Expected life	6.95 Years	8.90 Years	8.92 Years	8.92 Years
Risk-free rate	0.52%	0.81%	1.67%	1.67%
Expected volatility	43.52%	41.79%	42.67%	42.67%
Expected dividend yield	0.339%	0.346%	0.210%	0.210%

The following table summarizes information about stock option activity for fiscal 2003, 2004 and 2005:

	2003		2004		2005		
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	
		Yen		Yen		Yen	U. S. dollar
Outstanding at beginning of year	1,568,253	¥ 11,991	1,833,405	¥ 11,333	2,050,910	¥ 10,349	\$ 96.37
Granted	453,300	7,452	516,000	7,230	528,900	12,121	112.87
Exercised	(62,929)	6,899	(25,200)	7,779	(329,989)	8,501	79.16

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Forfeited or expired	<u>(125,219)</u>	<u>7,758</u>	<u>(273,295)</u>	<u>11,297</u>	<u>(145,138)</u>	<u>13,674</u>	<u>127.33</u>
Outstanding at end of year	<u>1,833,405</u>	<u>11,333</u>	<u>2,050,910</u>	<u>10,349</u>	<u>2,104,683</u>	<u>10,855</u>	<u>101.08</u>
Exercisable at end of year	<u>767,905</u>	<u>¥ 11,225</u>	<u>1,086,010</u>	<u>¥ 13,029</u>	<u>1,069,283</u>	<u>¥ 11,950</u>	<u>\$ 111.28</u>

The exercise prices of the granted options were adjusted on April 1, 2000 for a 1.2-for-1 stock split implemented on May 19, 2000.

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

Summary information about the Company's stock options outstanding and exercisable at March 31, 2005 is as follows:

Range of exercise price	Outstanding			Exercisable	
	Number of shares	Weighted average remaining life	Weighted average exercise price	Number of shares	Weighted average exercise price
		Years	Yen		Yen
Yen					
¥ 7,230-¥10,000	801,900	7.63	¥7,332	294,400	¥7,509
10,001- 13,000	995,583	7.17	12,020	467,683	11,907
13,001- 16,272	307,200	5.25	16,272	307,200	16,272
7,230- 16,272	2,104,683	7.06	10,855	1,069,283	11,950

Range of exercise price	Outstanding			Exercisable	
	Number of shares	Weighted average remaining life	Weighted average exercise price	Number of shares	Weighted average exercise price
		Years	U.S. dollars		U.S. dollars
U.S. dollars					
\$67.32-\$ 93.12	801,900	7.63	\$ 68.27	294,400	\$ 69.92
93.13- 121.05	995,583	7.17	111.93	467,683	110.88
121.06- 151.52	307,200	5.25	151.52	307,200	151.52
67.32- 151.52	2,104,683	7.06	101.08	1,069,283	111.28

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****ORIX Corporation and its Subsidiaries****18. Accumulated Other Comprehensive Income (Loss)**

Changes in each component of accumulated other comprehensive income (loss) in fiscal 2003, 2004 and 2005 are as follows. Comprehensive income (loss) and its components have been reported, net of tax, in the consolidated statements of shareholders' equity.

	Millions of yen				
	Net unrealized gains on investment in securities	Minimum pension liability adjustments	Foreign currency translation adjustments	Net unrealized losses on derivative instruments	Accumulated other comprehensive income (loss)
Balance at March 31, 2002	¥ 14,756	¥ (6,834)	¥ (14,800)	¥ (6,562)	¥ (13,440)
Net unrealized losses on investment in securities, net of tax of ¥7,887 million	(14,300)				(14,300)
Reclassification adjustment for losses included in net income, net of tax of ¥(841) million	1,461				1,461
Minimum pension liability adjustments, net of tax of ¥(1,986) million		2,652			2,652
Foreign currency translation adjustments, net of tax of ¥835 million			(15,780)		(15,780)
Reclassification adjustment for losses included in net income			661		661
Net unrealized losses on derivative instruments, net of tax of ¥1,040 million				(1,785)	(1,785)
Reclassification adjustment for losses included in net income, net of tax of ¥(595) million				784	784
Current period change	(12,839)	2,652	(15,119)	(1,001)	(26,307)

	Millions of yen				
	Net unrealized gains on investment in securities	Minimum pension liability adjustments	Foreign currency translation adjustments	Net unrealized losses on derivative instruments	Accumulated other comprehensive income (loss)
Balance at March 31, 2003	1,917	(4,182)	(29,919)	(7,563)	(39,747)
Net unrealized gains on investment in securities, net of tax of ¥(17,929) million	26,875				26,875

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Reclassification adjustment for losses included in net income, net of tax of ¥2,750 million	(3,744)				(3,744)
Minimum pension liability adjustments, net of tax of ¥2,573 million		(3,785)			(3,785)
Foreign currency translation adjustments, net of tax of ¥3,192 million			(15,467)		(15,467)
Reclassification adjustment for losses included in net income			(243)		(243)
Net unrealized gains on derivative instruments, net of tax of ¥(1,846) million				2,588	2,588
Reclassification adjustment for losses included in net income, net of tax of ¥(265) million				382	382
Current period change	23,131	(3,785)	(15,710)	2,970	6,606
Balance at March 31, 2004	25,048	(7,967)	(45,629)	(4,593)	(33,141)
Net unrealized gains on investment in securities, net of tax of ¥(13,192) million	23,205				23,205
Reclassification adjustment for losses included in net income, net of tax of ¥5,628 million	(8,103)				(8,103)
Minimum pension liability adjustments, net of tax of ¥ (4,781) million		6,877			6,877
Foreign currency translation adjustments, net of tax of ¥(81) million			4,971		4,971
Reclassification adjustment for losses included in net income			1,048		1,048
Net unrealized gains on derivative instruments, net of tax of ¥(1,467) million				2,738	2,738
Reclassification adjustment for losses included in net income, net of tax of ¥(398) million				532	532
Current period change	15,102	6,877	6,019	3,270	31,268
Balance at March 31, 2005	¥ 40,150	¥ (1,090)	¥ (39,610)	¥ (1,323)	¥ (1,873)

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

Millions of U.S. dollars

	Net unrealized gains on investment in securities	Minimum pension liability adjustments	Foreign currency translation adjustments	Net unrealized losses on derivative instruments	Accumulated other comprehensive income (loss)
Balance at March 31, 2004	\$ 233	\$ (74)	\$ (425)	\$ (42)	\$ (308)
Net unrealized gains on investment in securities, net of tax of \$ (123) million	216				216
Reclassification adjustment for losses included in net income, net of tax of \$53 million	(75)				(75)
Minimum pension liability adjustments, net of tax of \$(45) million		64			64
Foreign currency translation adjustments, net of tax of \$(1) million			46		46
Reclassification adjustment for losses included in net income			10		10
Net unrealized gains on derivative instruments, net of tax of \$(14) million				25	25
Reclassification adjustment for losses included in net income, net of tax of (3) \$million				5	5
Current period change	141	64	56	30	291
Balance at March 31, 2005	\$ 374	\$ (10)	\$ (369)	\$ (12)	\$ (17)

19. Shareholders Equity

Changes in the number of shares issued and outstanding in fiscal 2003, 2004 and 2005 are as follows:

	Number of shares		
	2003	2004	2005
Beginning balance	84,303,985	84,365,914	84,366,314
Exercise of warrants	61,929	400	249,089
Conversion of convertible bonds			3,380,687
Ending balance	84,365,914	84,366,314	87,996,090

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Prior to October 1, 2001, the Japanese Commercial Code (the Code) provided that an amount equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriation of retained earnings be appropriated to a legal reserve until such reserve equaled 25% of issued capital. The Code, amended effective on October 1, 2001, provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriation of retained earnings be appropriated to the legal reserve until the aggregate amount of the additional paid-in capital and the legal reserve equals 25% of the issued capital. The Code also provides that both additional paid-in capital and the legal reserve are not available for cash dividends but may be used to reduce a capital deficit and may be reduced (in the case of the latter, in aggregate, the remainder after such reduction should not be less than 25% of the issued capital and a resolution of a general meeting of shareholders is required), or may be capitalized by resolution of the Board of Directors.

The Code provides that at least one-half of the issue price of new shares be included in common stock. In conformity therewith, the Company has divided the principal amount of bonds converted into common stock and proceeds received from the issuance of common stock, including the exercise of warrants and stock acquisition rights, equally between common stock and additional paid-in capital by resolution of the Board of Directors.

The Board of Directors resolved in May 2005 that total of ¥3,496 million (\$33 million) dividends shall be distributed to the shareholders of record as of March 31, 2005. The liability for declared dividends and related impact on shareholder s equity are accounted for in the period of such board of directors resolution.

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The amount available for dividends under the Code is calculated based on the amount recorded in the Company's non-consolidated financial statements prepared in accordance with accounting principles generally accepted in Japan, and there are restrictions on the payment of dividends relating to net unrealized gains on investment in securities and earnings associated with derivative contracts, amounting to ¥19,992 million (\$186 million) as of March 31, 2005. As a result, the amount available for dividends is ¥109,312 million (\$1,018 million) as of March 31, 2005.

Retained earnings at March 31, 2005 include ¥39,617 million (\$369 million) relating to equity in undistributed earnings of the companies accounted for by the equity method.

As of March 31, 2005, the restricted net assets of certain subsidiaries include regulatory capital requirements for life insurance, banking and securities brokerage operations of ¥31,414 million (\$293 million).

20. Brokerage Commissions and Net Gains on Investment Securities

Brokerage commissions and net gains on investment securities in fiscal 2003, 2004 and 2005 consist of the following:

	Millions of yen			Millions of U.S. dollars
	2003	2004	2005	2005
Brokerage commissions	¥ 2,400	¥ 3,967	¥ 4,516	\$ 42
Net gains on investment securities	8,457	22,058	29,390	274
	¥ 10,857	¥ 26,025	¥ 33,906	\$ 316

Trading activities Net gains on investment securities include net trading loss of ¥1,040 million, net trading gain of ¥1,500 million and net trading loss of ¥215 million (\$2 million) for fiscal 2003, 2004 and 2005, respectively. Net gains of ¥231 million, ¥431 million and net losses of ¥166 million (\$2 million) on derivative trading instruments are also included in net gains on investment securities for fiscal 2003, 2004 and 2005, respectively.

21. Life Insurance Operations

Life insurance premiums and related investment income in fiscal 2003, 2004 and 2005 consist of the following:

	Millions of yen			Millions of U.S. dollars
	2003	2004	2005	2005
Life insurance premiums	¥ 122,963	¥ 119,458	¥ 125,806	\$ 1,172
Life insurance related investment income	15,476	14,696	11,198	104
	¥ 138,439	¥ 134,154	¥ 137,004	\$ 1,276

The benefits and expenses of life insurance operations, included in life insurance costs in the consolidated statements of income, are associated with earned premiums so as to result in the recognition of profits over the life of contracts. This association is accomplished by means of the provision for future policy benefits and the deferral and subsequent amortization of policy acquisition costs (principally commissions and certain other expenses relating to policy issuance and underwriting). These policy acquisition costs are amortized over the respective policy periods in proportion to premium revenue recognized. Amortization charged to income for fiscal 2003, 2004 and 2005 amounted to ¥11,740 million, ¥10,017 million and ¥10,359 million (\$96 million), respectively.

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In fiscal 2003, 2004 and 2005, other operating revenues include revenues from integrated facilities management operations, which amounted to ¥11,731 million, ¥17,705 million and ¥30,974 million (\$288 million), respectively, and their related expenses were ¥9,602 million, ¥15,599 million and ¥28,534 million (\$266 million), respectively, which are included in other operating expenses.

Other items consist of revenues and expenses from golf courses, a training facility and hotels, operating results from real estate related business and the servicing of receivables in a foreign subsidiary, commissions for the sale of insurance and other financial products and revenues and expenses from other operations, of which there were no items exceeding 10% of total other operating revenues and expenses in fiscal 2003, 2004 and 2005, respectively.

Gains and losses from the disposition of operating facilities included in other operating assets are not significant for fiscal 2003, 2004 and 2005.

23. 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 impairment on some assets for which events or changes in circumstances indicated that the carrying amount might not be recoverable. The Company and subsidiaries consider an asset's carrying amount as not recoverable when such carrying amount exceeds the sum of undiscounted cash flows expected to result from the use and eventual disposition of the asset. When it is determined that an asset's carrying amount is not recoverable, an impairment loss is measured as the amount by which the carrying amount exceeds the asset's estimated fair value. Fair value was calculated by independent third party appraisals, appraisals prepared internally by the Company's own staff of appraisers, based on recent transactions involving sales of similar assets, or other valuation techniques to estimate fair value.

During fiscal 2003, 2004 and 2005, the Company and certain subsidiaries recognized impairment losses for the difference between long-lived asset carrying values and estimated fair values in the amount of ¥50,682 million, ¥12,345 million and ¥11,713 million (\$109 million), respectively, which are reflected as write-downs of long-lived assets. The losses of ¥1,879 million (\$18 million) were included in the Americas segment, ¥1,318 million (\$12 million) were included in the real estate segment and ¥768 million (\$7 million) were included in the real estate-related finance segment respectively, and the remaining ¥7,748 million (\$72 million) of losses was recorded separately from segment information for assets considered corporate assets in fiscal 2005. The details of significant write-downs are as follows.

Golf courses In fiscal 2003, certain subsidiaries determined to write their owned four golf courses down to each its estimated fair value due to the reduction in play fees reflecting competition with surrounding golf courses resulting in write-downs of long-lived assets of ¥25,270 million. In fiscal 2004, certain subsidiaries wrote their two golf courses down to each estimated fair values resulting in write-downs of long-lived assets

of ¥3,473 million due to cash flow declining on their golf courses because of competition with surrounding golf courses, which resulted in a decrease in the number of visitors and playing fees. There was no impairment for these golf courses in fiscal 2005.

Corporate Dormitories The Company and a subsidiary have a business activity that consists of leasing corporate dormitory buildings to major corporations in Japan. During fiscal 2003, ¥3,137 million of write-downs for several dormitory properties were recorded, due to the deterioration of terms and conditions of lease contracts between those corporations and the Company or a subsidiary. During fiscal 2004, ¥2,071 million of write-downs

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for a few dormitory properties were recorded, due to some lease contracts with corporate customers that were restructured at lower rental rates or expired without being renewed. During fiscal 2005, the Company determined that expected future cash flows were less than the current carrying amount for one dormitory property because the lease contract with corporate customer expired without being renewed, and recognized its estimated fair value was below current carrying amount. As the result, the Company wrote down the dormitory to its estimated fair value resulting in write-downs of long-lived assets of ¥500 million (\$5 million).

Office Buildings During fiscal 2003, ¥7,257 million of write-downs were recorded, due to a decline in current rental rates. During fiscal 2004, the business environment for office buildings recovered slightly and rental rates stopped declining in certain areas, but the Company wrote down an office building in a city other than Tokyo to the estimated fair value resulting in write-downs of long-lived assets of ¥766 million. During fiscal 2005, the business environment for office buildings improved compared to the previous fiscal year, but the Company wrote down to the estimated fair value an office building in a city other than Tokyo, Osaka and Nagoya resulting in write-downs of long-lived assets of ¥306 million (\$3 million). This office building became vacant due to the bankruptcy of an office tenant and the Company determined its carrying amount was not recoverable with expected future cash flows.

Hotel properties and Commercial Complex During fiscal 2003, ¥4,910 million of write-downs were recorded due to the decline in occupancy rates at several of the hotel properties owned by the Company and certain subsidiaries. During fiscal 2004, a subsidiary in the United States reexamined the expected future cash flow generated from a commercial complex in a redevelopment area due to changes of the development project. Accordingly the subsidiary wrote down this property to the estimated fair value resulting in a write-downs of ¥3,019 million. During fiscal 2005, a subsidiary in the United States determined that expected future cash flows were less than the current carrying amount for a certain commercial complex due to a decrease in current rental rates. The estimated fair value was less than the current carrying amount, and as a result, the subsidiary recorded ¥1,879 million (\$17 million) of write-downs.

Condominiums During fiscal 2003 and 2004, ¥6,480 million of write-downs for approximately 540 units and ¥915 million of write-downs for approximately 160 units were recorded, respectively, due to the decline in the expected cash flow by each unit. During fiscal 2005, the Company tested for impairment based on cash flow information by each unit and has written these condominiums down to their estimated fair value resulting in write-downs of long-lived assets of ¥554 million (\$5 million) for approximately 90 units.

Others During fiscal 2003 and 2004, the Company and certain subsidiaries recorded ¥3,628 million and ¥2,101 million of write-downs of long-lived assets, respectively, for other long-lived assets including developed and undeveloped land. During fiscal 2005, the Company and certain subsidiaries recorded impairment losses of ¥8,474 million (\$79 million) for properties consisting of ¥7,705 million (\$72 million) of a write-down for a property in Japan that was reclassified from office facilities to rental purpose and was assessed based on its revised expected future cash flows as rental purpose after it was decided that the building would be rebuilt, and ¥769 million (\$7 million) for other real estate including developed and undeveloped land.

24. Discontinued Operations

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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 (Accounting for the Impairment or Disposal of Long-Lived Assets) 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. In fiscal 2004 and 2005, the Company, its subsidiaries in Japan and a subsidiary in the United States

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sold real estate for rental without significant continuing involvement in those sold properties and earned ¥3,747 million and ¥9,964 million (\$93 million) of aggregated gains, respectively. In addition, the Company and its subsidiaries determined to dispose of by sale properties for rental without a significant continuing involvement in those properties of ¥9,131 million and ¥16,532 million (\$154 million) which are mainly included in the investment in operating leases in the accompanying consolidated balance sheets at March 31, 2004 and 2005. Under this Statement, the Company and the subsidiaries report these gains on sales of rental properties, rental revenues generated and other expenses incurred by the operations of both the properties, which have been sold and to be disposed of by sale as income from discontinued operations in the accompanying consolidated statements of income. Income and expenses generated by the operations of these properties recognized in fiscal 2003 and 2004 have also been reclassified as income from discontinued operations in each year in the accompanying consolidated statements of income. Revenues from operations for the discontinued operations reclassified in fiscal 2003, 2004 and 2005 are ¥4,578 million, ¥9,832 million and ¥13,872 million (\$129 million), respectively, and income before income taxes are ¥902 million, ¥4,916 million and ¥10,037 million (\$93 million) in fiscal 2003, 2004 and 2005, respectively.

25. Per Share Data

In Japan, dividends which are payable to shareholders of record at the end of a fiscal year had been approved at the annual general meeting of shareholders held subsequent to the year-end fiscal 2003. After fiscal 2004, the Company adopted a Company with Committees board model, which became possible as a result of an amendment to the Japanese Commercial Code effective in April 2003, and accordingly dividends are resolved at the board of directors meeting held subsequent to the year-end. Therefore, the declaration of these dividends is not reflected in the financial statements at such fiscal year-ends.

Reconciliation of the differences between basic and diluted earnings per share (EPS) in fiscal 2003, 2004 and 2005 is as follows:

	Millions of yen			Millions of U.S. dollars
	2003	2004	2005	2005
Income from continuing operations	¥ 24,578	¥ 50,510	¥ 85,521	\$ 796
Effect of dilutive securities				
Convertible notes	85	1,432	1,362	13
Income from continuing operations for diluted EPS computation	¥ 24,663	¥ 51,942	¥ 86,883	\$ 809

Thousands of shares

2003	2004	2005
------	------	------

Weighted-average shares	83,672	83,685	84,110
Effect of dilutive securities			
Warrants		97	381
Convertible notes	5,273	8,409	8,120
Treasury stock	5	4	45
Weighted-average shares for diluted EPS computation	88,950	92,195	92,656

	Yen			U.S. dollars
	2003	2004	2005	2005
Earnings per share for income from continuing operations:				
Basic	¥ 293.74	¥ 603.58	¥ 1,016.78	\$ 9.47
Diluted	277.27	563.39	937.70	8.73

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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As a result of adopting EITF Issue No. 04-8 (the Effect of Contingently Convertible Instruments on Diluted Earnings per Share), diluted earnings per share for income from continuing operations and net income for fiscal 2004 have been restated retroactively in the above table. It did not have a dilutive effect on earnings per share for fiscal 2003:

26. 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. The interest rate swap agreements outstanding as of March 31, 2005 mature at various dates through 2020. Net losses before deducting applicable taxes on derivative contracts that were reclassified from other comprehensive loss into earnings through other operating expenses and other operating revenues were ¥784 million, ¥382 million and ¥532 million (\$5 million) during fiscal 2003, 2004 and 2005, respectively. Net losses of ¥124 million, net gains of ¥19 million and ¥45 million (\$0 million), which represents the total ineffectiveness of cash flow hedges, were recorded in earnings, through other operating expenses and other operating revenues, for fiscal 2003, 2004 and 2005, respectively. Approximately ¥708 million (\$7 million) of net derivative losses included in accumulated other comprehensive loss, net of applicable income taxes at March 31, 2005

will be reclassified into earnings through other operating expenses within fiscal 2006.

(c) Fair value hedges

The Company and its subsidiaries use financial 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

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denominated in other than the subsidiaries' local currency, foreign currency swap agreements are used to hedge foreign exchange rate exposure. For fiscal 2003, 2004 and 2005, a gain of ¥0 million, ¥3 million and ¥231 million (\$2 million) of hedge ineffectiveness associated with instruments designated as fair value hedges were recorded in earnings through other operating revenues.

(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. The gains and losses of these hedging instruments were recorded in foreign currency translation adjustments, which is a part of accumulated other comprehensive income (loss). The net gain (loss) of foreign currency translation adjustments for fiscal 2003, 2004 and 2005 were a gain of ¥5,052 million, ¥9,010 million and a loss of ¥6,471 million (\$60 million), respectively.

(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. In accordance with FASB Statement No. 133, conversion options were bifurcated from the Company and certain subsidiaries' convertible bonds and are recorded as stand-alone derivative contracts. At March 31, 2004 and 2005, the total face amounts were ¥29,735 million and ¥4,488 million (\$42 million), respectively, and the fair value of conversion option were ¥910 million and ¥12 million (\$0 million), respectively.

The following table provides notional amount information about derivative instruments as of March 31, 2004 and 2005. 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.

	Millions of yen		Millions of U.S. dollars
	2004	2005	2005
Interest rate risk management:			
Interest rate swap agreements	¥ 440,894	¥ 366,838	\$ 3,416
Options and caps held	56,361	44,752	417
Forward contracts	97,510		
Foreign exchange risk management:			
Foreign exchange forward contracts	¥ 117,939	¥ 146,964	\$ 1,369

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Futures	114	124	1
Foreign currency swap agreements	224,628	136,636	1,272
Trading activities:			
Futures	¥ 213,802	¥ 120,090	\$ 1,118
Options and caps held	1,446	1,388	13
Options and caps written	1,317	1,000	9
Foreign exchange forward contracts	8,387	4,136	39

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

27. Significant Concentrations of Credit Risk

The Company and its subsidiaries have established various policies and procedures to manage credit exposure, including initial credit approval, credit limits, collateral and guarantee requirements, obtaining rights of offset and continuous oversight. The Company and its subsidiaries principal financial instrument portfolio consists of direct financing leases and installment loans which are secured by title to the leased assets and assets specifically collateralized in relation to loan agreements. When deemed necessary, guarantees are also obtained. The value and adequacy of the collateral are continually monitored. Consequently, the risk of credit loss from counterparties' failure to perform in connection with collateralized financing activities is believed to be minimal. The Company and its subsidiaries have access to collateral in case of bankruptcy and other losses. However, a significant decline in real estate markets could result in a decline in value of the secured real estate below the mortgage setting amount which would expose the Company and certain subsidiaries to unsecured credit risk.

At March 31, 2004 and 2005, no concentration with a single obligor exceeded 1% of consolidated total assets. With respect to the Company and its subsidiaries' credit exposures on a geographic basis, approximately ¥3,878 billion, or 83%, at March 31, 2004 and approximately ¥4,230 billion (\$39,389 million), or 85%, at March 31, 2005 of the credit risks arising from all financial instruments are attributable to customers located in Japan. The largest concentration of credit risks outside of Japan is exposure attributable to obligors located in the United States of America. The gross amount of such exposure is ¥418 billion and ¥364 billion (\$3,390 million) as of March 31, 2004 and 2005, respectively.

The Company and its subsidiaries make direct financing lease and operating lease contracts mostly with lessees in commercial industries for their office, industry, commercial service, transport and other equipment. At March 31, 2004 and 2005, the Company and its subsidiaries had concentrations in certain equipment types included in investment in direct financing leases and operating leases which exceeded 10% of the consolidated total assets. The percentage of investment in transportation equipment to consolidated total assets is 12.1% and 12.0% as of March 31, 2004 and 2005, respectively.

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The following information is provided to help readers gain an understanding of the relationship between amounts reported in the accompanying consolidated financial statements and the related market or fair value.

The disclosures include financial instruments and derivatives financial instruments, other than investment in direct financing leases, investment in subsidiaries and affiliates, pension obligations and insurance contracts.

March 31, 2004

	Millions of yen	
	Carrying amount	Estimated fair value
Trading instruments		
Trading securities	¥ 26,354	¥ 26,354
Futures:		
Assets	602	602
Liabilities	44	44
Options and other derivatives:		
Assets	45	45
Liabilities	32	32
Non-trading instruments		
Assets:		
Cash and cash equivalents	152,235	152,235
Restricted cash	35,621	35,621
Time deposits	677	677
Installment loans (net of allowance for probable loan losses)	2,147,928	2,162,285
Investment in securities:		
Practicable to estimate fair value	386,797	386,797
Not practicable to estimate fair value	138,777	138,777
Liabilities:		
Short-term debt	903,916	903,916
Deposits	292,545	296,036
Long-term debt	2,662,719	2,672,585
Foreign exchange forward contracts:		
Assets	1,566	1,566
Liabilities	1,264	1,264

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Foreign currency swap agreements:		
Assets	16,607	16,607
Liabilities	1,328	1,328
Interest rate swap agreements:		
Assets	1,386	1,386
Liabilities	9,364	9,364
Options and other derivatives:		
Assets	1,590	1,590
Liabilities	1	1

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March 31, 2005

	Millions of yen		Millions of U.S. dollars	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Trading instruments				
Trading securities	¥ 47,784	¥ 47,784	\$ 445	\$ 445
Futures:				
Assets	264	264	2	2
Liabilities	60	60	1	1
Options and other derivatives:				
Assets	11	11	0	0
Liabilities	50	50	0	0
Non-trading instruments				
Assets:				
Cash and cash equivalents	145,380	145,380	1,354	1,354
Restricted cash	53,193	53,193	495	495
Time deposits	8,678	8,678	81	81
Installment loans (net of allowance for probable loan losses)	2,307,611	2,306,350	21,489	21,476
Investment in securities:				
Practicable to estimate fair value	390,542	390,542	3,637	3,637
Not practicable to estimate fair value	150,945	150,945	1,405	1,405
Liabilities:				
Short-term debt	947,871	947,871	8,826	8,826
Deposits	336,588	341,846	3,134	3,183
Long-term debt	2,861,863	2,873,735	26,649	26,760
Foreign exchange forward contracts:				
Assets	471	471	4	4
Liabilities	3,925	3,925	37	37
Foreign currency swap agreements:				
Assets	5,256	5,256	49	49
Liabilities	2,729	2,729	25	25
Interest rate swap agreements:				
Assets	1,900	1,900	18	18
Liabilities	3,616	3,616	34	34
Options and other derivatives:				
Assets	22	22	0	0

The estimated fair value amounts were determined using available market information, discounted cash flow information utilized by the Company and its subsidiaries in conducting new business and certain valuation methodologies. If quoted market prices were not readily available, management estimated a fair value. Accordingly, the estimates may not be indicative of the amounts at which the financial instruments could be exchanged in a current or future market transaction. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies may have a significant effect on the derived estimated fair value amounts.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

Estimation of fair value

The following methods and significant assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate a value:

Cash and cash equivalents, restricted cash, time deposits and short-term debt For cash and cash equivalents, restricted cash, time deposits and short-term debt, the carrying amounts recognized in the balance sheets were determined to be reasonable estimates of their fair values due to their relatively short maturity.

Installment loans The carrying amounts of floating-rate installment loans with no significant changes in credit risk and which could be repriced within a short-term period were determined to be reasonable estimates of their fair values. For certain homogeneous categories of medium- and long-term fixed-rate loans, such as housing loans and other loans, the estimated fair values were calculated by discounting the future cash flows using the current interest rates charged by the Company and its subsidiaries for new loans made to borrowers with similar credit ratings and remaining maturities.

Investment in securities For trading securities and available-for-sale securities, the estimated fair values, which are also the carrying amounts recorded in the balance sheets, were generally based on quoted market prices or quotations provided by dealers. For held-to-maturity securities, the estimated fair values were based on quoted market prices, if available. If a quoted market price was not available, estimated fair values were determined using quoted market prices for similar securities or the carrying amounts (where carrying amounts were believed to approximate the estimated fair values).

For other securities, for which there were no quoted market prices, reasonable estimates of fair values could not be made without incurring excessive costs.

Deposits The carrying amounts of demand deposits recognized in the consolidated balance sheets were determined to be reasonable estimates of their fair value. The estimated fair values of time deposits were calculated by discounting the future cash flows. The current interest rates offered for the deposits with similar terms and remaining average maturities were used as the discount rates.

Long-term debt The carrying amounts of long-term debt with floating rates which could be repriced within short-term periods were determined to be reasonable estimates of their fair values. For medium-and long-term fixed-rate debt, the estimated fair values were calculated by discounting the future cash flows. The borrowing interest rates that were currently available to the Company and its subsidiaries offered by financial institutions for debt with similar terms and remaining average maturities were used as the discount rates.

Derivatives The fair value of derivatives generally reflects the estimated amounts that the Company and its subsidiaries would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts. Discounted amounts of future cash flows using the current interest rate are available for most of the Company's and its subsidiaries' derivatives.

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Commitments As of March 31, 2005, the Company and its subsidiaries had commitments for the purchase of equipment to be leased, having a cost of ¥8,538 million (\$80 million).

The minimum future rentals on non-cancelable operating leases are as follows. The longest contract will mature in fiscal 2032.

Years ending March 31,	Millions of yen	Millions of U.S. dollars
2006	¥ 1,394	\$ 13
2007	1,000	9
2008	764	7
2009	427	4
2010	201	2
Thereafter	1,246	12
Total	¥ 5,032	\$ 47

The Company and its subsidiaries lease office space under operating lease agreements, which are primarily cancelable, and made rental payments totaling ¥7,293 million, ¥7,042 million and ¥8,428 million (\$78 million) in fiscal 2003, 2004 and 2005, 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 ¥1,795 million, ¥3,320 million and ¥3,405 million (\$32 million) in fiscal 2003, 2004 and 2005, respectively. The longest contract of them will mature in fiscal 2009. At March 31, 2005, the amounts due in each of the next five years are as follows:

Years ending March 31,	Millions of yen	Millions of U.S. dollars
2006	¥ 3,409	\$ 32
2007	3,389	31
2008	1,689	16
2009	129	1

2010		
Total	¥ 8,616	\$ 80

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 ¥179,003 million (\$1,667 million) as of March 31, 2005.

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. As of March 31, 2005, the total unused credit amount available is ¥222,249 million (\$2,070 million).

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

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value of the guarantees within the scope of FASB Interpretation No. 45 issued or amended on and after January 1, 2003. Adoption of this Statement did not have a significant effect on the Company and its subsidiaries' results of operations or financial position. The following table represents the summary of guarantees recorded as guarantee liabilities as of the March 31, 2004 and 2005 and potential future payments of the guarantee contracts outstanding:

Guarantees	Millions of yen				Millions of U.S. dollars	
	2004		2005		2005	
	Potential future payment	Book value of guarantee liabilities	Potential future payment	Book value of guarantee liabilities	Potential future payment	Book value of guarantee liabilities
Housing loans	¥ 43,402	¥ 10,024	¥ 37,391	¥ 8,543	\$ 348	\$ 80
Consumer loans	25,473	2,809	21,908	2,606	204	24
Corporate loans	53,672	1,726	102,698	3,035	957	28
Other	2,964		1,728	108	16	1
Total	¥ 125,511	¥ 14,559	¥ 163,725	¥ 14,292	\$ 1,525	\$ 133

Guarantee of housing loans: The Company and certain subsidiaries guarantee the housing loans issued by Japanese financial institutions to third party individuals and employees of the Company and certain subsidiaries. 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 two months.

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. Total amounts of such guarantee and guarantee commissions are ¥73,500 million (\$684 million) and ¥1,293 million (\$12 million) as of March 31, 2005, 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.

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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 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 in operations in Japan 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.

Corporate financial services operations are primarily corporate direct financing leases and lending operations other than real estate related lending. Automobile operations comprise automobile leasing operations and automobile rental operations. Rental operations comprise operating leases over measuring equipment and information-related equipment. Real estate-related finance operations include corporate real estate financing activities as well as personal housing loan lending operations. Real estate operations primarily comprise residential subdivision developments, office buildings development and sales as well as the rental and management of office buildings, golf courses, hotels and a training facility. Life insurance operations include direct and agency life insurance sales and related activities. The two overseas operating segments, the Americas and Asia, Oceania and Europe, include direct financing lease operations, investment in debt securities, collateralized real estate lending and aircraft and ship financing operations. Other operations, which are not deemed by management to be sufficiently significant to disclose as separate items and do not fall into the above segment categories, are reported under operations in Japan, other. They primarily include securities brokerage, venture capital operations, card loans and corporate rehabilitation business.

Effective January 1, 2005, the Company integrated seven group companies, which were involved in automobile leasing and rental operations, into ORIX Auto Corporation, in order to control and manage the overall automobile operations under one company. The automobile leasing operations, which had been included in the Corporate Financial Services segment and the automobile rental operations that had been included in the Rental Operations segment were included in the Automobile Operations segment from this fiscal year. The Rental Operations segment now includes only the rental operations of precision measuring and information-related equipment. The Company had managed the Europe segment as an independent operating segment apart from the Asia and Oceania segment. Due to the downsizing of the business operation in the Europe area, the Company reviewed its business management policy and consequently, the management decided to integrate the Europe segment into the Asia and Oceania segment. From this fiscal year the new segment is shown as the Asia, Oceania and Europe segment. Accordingly, certain amounts in fiscal 2003 and 2004 have been reclassified retroactively to conform to the fiscal 2005 presentation.

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Financial information of the segments for fiscal 2003, 2004 and 2005 is as follows:

Year ended March 31, 2003	Millions of yen										
	Operations in Japan						Overseas operations				
	Corporate financial services	Automobile operations	Rental operations	Real estate			Life insurance	Other	The Americas	Asia, Oceania and Europe	Total
				-related finance	Real estate						
Revenues	¥ 82,059	¥ 66,215	¥ 68,162	¥ 52,548	¥ 110,092	¥ 138,511	¥ 61,240	¥ 61,643	¥ 75,005	¥ 715,475	
Interest revenue	18,623	20	8	28,991	414		41,474	30,460	11,232	131,222	
Interest expense	15,281	3,165	1,177	6,303	2,122	86	3,453	18,808	16,855	67,250	
Depreciation and amortization	21,727	15,759	39,642	3,048	4,487	75	4,077	2,880	23,428	115,123	
Other significant non-cash items:											
Provision for doubtful receivables and probable loan losses	18,004	485	2,373	8,499	4	108	14,195	8,173	2,865	54,706	
Write-downs of long-lived assets					50,682					50,682	
Increase in policy liabilities						5,889				5,889	
Equity in net income (loss) of and gains (losses) on sales of affiliates	(73)			561	2		3,168	4,433	1,202	9,293	
Discontinued operations	(9)			280	856	72		(297)		902	
Segment profit (loss)	27,560	17,775	3,225	19,572	(39,441)	4,791	8,452	1,332	9,029	52,295	
Segment assets	1,525,968	385,385	126,466	931,513	303,838	579,805	387,978	618,148	513,081	5,372,182	
Long-lived assets	17,740	39,566	77,679	86,247	207,821	18,350	216	70,784	116,830	635,233	
Expenditures for long-lived assets	167	27,335	47,835	5,201	30,106	327		907	28,529	140,407	
Investment in affiliates	161	22		13,118			40,636	27,866	49,373	131,176	

Year ended March 31, 2004	Millions of yen										
	Operations in Japan						Overseas operations				
	Corporate financial services	Automobile operations	Rental operations	Real estate			Life insurance	Other	The Americas	Asia, Oceania and Europe	Total
				-related finance	Real estate						
Revenues	¥ 80,418	¥ 72,614	¥ 73,235	¥ 56,804	¥ 148,217	¥ 133,391	¥ 73,987	¥ 50,373	¥ 71,176	¥ 760,215	
Interest revenue	17,944	10	6	32,099	381		38,691	18,206	8,896	116,233	
Interest expense	15,082	2,561	1,408	6,335	2,346	87	3,138	12,598	13,823	57,378	
Depreciation and amortization	21,958	17,966	41,682	4,262	4,194	73	2,805	2,735	22,813	118,488	
Other significant non-cash items:											
Provision for doubtful receivables and probable loan losses	16,009	2,218	(249)	6,870	86	912	16,729	4,476	2,541	49,592	
Write-downs of long-lived assets	143				8,052			3,019		11,214	
Decrease in policy liabilities						15,771				15,771	

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Equity in net income (loss) of and gains (losses) on sales of affiliates	(61)	12		475	12		3,144	4,369	9,595	17,546
Discontinued operations	29			1,661	855	58		2,313		4,916
Segment profit	27,150	17,921	8,058	18,102	6,244	5,382	10,079	7,601	16,596	117,133
Segment assets	1,416,117	418,412	119,388	909,019	309,558	582,473	412,505	472,595	469,675	5,109,742
Long-lived assets	18,189	76,480	78,198	71,006	192,969	25,225	786	60,208	108,051	631,112
Expenditures for long-lived assets	2,813	33,156	47,512	12,458	40,410	8,090	1	8,384	30,946	183,770
Investment in affiliates	99	35		(676)	634	12,852	50,568	26,778	58,888	149,178

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Millions of yen

Year ended March 31, 2005	Operations in Japan							Overseas operations			Total
	Corporate financial services	Automobile operations	Rental operations	Real estate			Life insurance	Other	The Americas	Asia, Oceania and Europe	
				-related finance	Real estate						
Revenues	¥ 87,708	¥ 89,404	¥ 68,447	¥ 100,567	¥ 172,728	¥ 136,857	¥ 143,754	¥ 53,084	¥ 73,089	¥ 925,638	
Interest revenue	25,043	7	7	47,136	301	1	37,245	18,359	8,139	136,238	
Interest expense	12,760	2,835	1,042	7,262	3,495	90	3,734	10,408	13,278	54,904	
Depreciation and amortization	23,010	26,613	41,936	3,548	4,859	94	5,006	3,154	23,240	131,460	
Other significant non-cash items:											
Provision for doubtful receivables and probable loan losses	10,529	(129)	63	16,697	290	113	9,971	1,498	542	39,574	
Write-downs of long-lived assets				768	1,318			1,879		3,965	
Decrease in policy liabilities						41,902				41,902	
Equity in net income (loss) of and gains (losses) on sales of affiliates	350	6		(735)	984	1,406	11,511	(1,546)	11,150	23,126	
Discontinued operations	121			3,298	2,819	250		3,549		10,037	
Segment profit	43,848	21,088	9,384	22,269	15,546	7,223	20,970	15,621	22,133	178,082	
Segment assets	1,506,311	451,715	118,427	1,106,548	350,254	567,023	489,758	403,399	498,855	5,492,290	
Long-lived assets	17,105	103,316	64,881	128,564	206,426	23,508	3,224	44,898	121,553	713,475	
Expenditures for long-lived assets	662	58,157	36,279	67,098	40,615	116	23	3,071	38,512	244,533	
Investment in affiliates	943	41		(727)	36,400	8,994	116,194	23,316	78,255	263,416	

Millions of U.S. dollars

Year ended March 31, 2005	Operations in Japan							Overseas operations			Total
	Corporate financial services	Automobile operations	Rental operations	Real estate			Life insurance	The Americas	Asia, Oceania and Europe		
				-related finance	Real estate						
Revenues	\$ 817	\$ 833	\$ 637	\$ 936	\$ 1,608	\$ 1,274	\$ 1,339	\$ 494	\$ 681	\$ 8,619	
Interest revenue	233	0	0	439	3	0	347	171	76	1,269	
Interest expense	118	26	10	68	32	1	35	97	124	511	
Depreciation and amortization	214	248	391	33	45	1	47	29	216	1,224	
Other significant non-cash items:											
Provision for doubtful receivables and probable loan losses	98	(1)	1	155	3	1	93	14	5	369	
Write-downs of long-lived assets				7	12					37	
Decrease in policy liabilities						390				390	
Equity in net income (loss) of and gains (losses) on sales of affiliates	3	0		(7)	9	13	107	(14)	104	215	

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Discontinued operations	1			31	26	2				93
Segment profit	408	196	87	207	145	67	197	145	206	1,658
Segment assets	14,027	4,206	1,103	10,304	3,262	5,280	4,560	3,756	4,645	51,143
Long-lived assets	160	962	604	1,197	1,922	219	30	418	1,132	6,644
Expenditures for long-lived assets	6	541	338	625	378	1	0	29	359	2,277
Investment in affiliates	9	0		(7)	339	84	1,082	217	729	2,453

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

The accounting policies of the segments are almost the same as those described in Note 1 (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 interest income 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.

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 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 asset. However, the effect resulting from this allocation is not significant.

The reconciliation of segment totals to consolidated financial statement amounts is as follows. Significant items to be reconciled are revenues, segment profit and segment assets. Other items do not have a significant difference between segment amounts and consolidated amounts.

	Millions of yen			Millions of U.S. dollars
	2003	2004	2005	2005
Revenues:				
Total revenues for segments	¥ 715,475	¥ 760,215	¥ 925,638	\$ 8,619
Revenue related to corporate assets	7,993	6,287	5,184	49
Revenue from discontinued operations	(4,578)	(9,832)	(13,872)	(129)
Total consolidated revenues	¥ 718,890	¥ 756,670	¥ 916,950	\$ 8,539
Segment profit:				
Total profit for segments	¥ 52,295	¥ 117,133	¥ 178,082	\$ 1,658
Corporate interest expenses, general and administrative expenses	(5,403)	(7,975)	(3,957)	(37)
Corporate write-downs of securities	(3,408)	(2,637)	(816)	(8)
Corporate write-downs of long-lived assets		(1,131)	(7,748)	(72)
Corporate other gain or loss	2,804	1,480	(1,177)	(11)
Discontinued operations	(902)	(4,916)	(10,037)	(93)
Total consolidated income before discontinued operations, extraordinary gain, cumulative effect of a change in accounting principle and income taxes	¥ 45,386	¥ 101,954	¥ 154,347	\$ 1,437

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Segment assets:				
Total assets for segments	¥ 5,372,182	¥ 5,109,742	¥ 5,492,290	\$ 51,143
Cash and cash equivalents, restricted cash and time deposits	224,532	188,533	207,251	1,930
Allowance for doubtful receivables on direct financing leases and probable loan losses	(133,146)	(128,020)	(115,250)	(1,073)
Other receivables	146,650	142,711	160,263	1,492
Other corporate assets	320,849	311,991	324,399	3,021
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total consolidated assets	¥ 5,931,067	¥ 5,624,957	¥ 6,068,953	\$ 56,513
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ORIX Corporation and its Subsidiaries

FASB Statement No. 131 (Disclosure about Segments of an Enterprise and Related Information) requires disclosure of information about geographic areas as enterprise-wide information. Since each segment is identified based on the nature of services for domestic operations and on the bases 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 foreign subsidiaries and foreign affiliates.

FASB Statement No. 131 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 fiscal 2003, 2004 and 2005.

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Table of Contents**Schedule II. Valuation and Qualifying Accounts and Reserves****ORIX Corporation and Subsidiaries**

For the year ended March 31, 2003

Description	Millions of yen				
	Balance at beginning of period	Addition: Charged to costs and expenses	Deduction	Translation Adjustment	Balance at end of period
Restructuring cost:					
Closed office lease obligations	¥ 365	¥ 93	¥ (239)	¥ (32)	¥ 187
Disposal of equipment			(178)	(18)	20
Severance and other benefits to terminated employees	216		(79)	(10)	21
Other closure, employee and professional costs	110				
Total	¥ 691	¥ 93	¥ (496)	¥ (60)	¥ 228
Deferred Tax Assets: Valuation Allowance	¥ 10,733	¥ 3,007	¥ (410)	¥ (185)	¥ 13,145

For the year ended March 31, 2004

Description	Millions of yen				
	Balance at beginning of period	Addition: Charged to costs and expenses	Deduction	Translation Adjustment	Balance at end of period
Restructuring cost:					
Closed office lease obligations	¥ 187	¥ 421	¥ (146)	¥ (15)	¥ 447
Disposal of equipment		44	(31)	(1)	12
Severance and other benefits to terminated employees	20	204	(137)	(6)	81
Other closure, employee and professional costs	21	133	(84)		70
Total	¥ 228	¥ 802	¥ (398)	¥ (22)	¥ 610
Deferred Tax Assets: Valuation Allowance	¥ 13,145	¥ 3,514	¥ (2,495)	¥ (256)	¥ 13,908

For the year ended March 31, 2005

Millions of yen					
<u>Description</u>	Addition:				
	Balance at beginning of period	Charged to costs and expenses	Deduction	Translation Adjustment	Balance at end of period
Restructuring cost:					
Closed office lease obligations	¥ 447	¥ 583	¥ (390)	¥ 20	¥ 660
Disposal of equipment	12		(12)		
Severance and other benefits to terminated employees	81	78	(147)	2	14
Other closure, employee and professional costs	70		(72)	2	
Total	¥ 610	¥ 661	¥ (621)	¥ 24	¥ 674
Deferred Tax Assets: Valuation Allowance	¥ 13,908	¥ 1,158	¥ (5,118)	¥ 88	¥ 10,036

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Signature

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

ORIX KABUSHIKI KAISHA

By: /s/ MASARU HATTORI

Name: Masaru Hattori
Title: Corporate Senior Vice President

Date: August 22, 2005