

ORIX CORP
Form 6-K
August 15, 2008
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

THE SECURITIES EXCHANGE Act of 1934

For the month of August, 2008.

ORIX Corporation

(Translation of Registrant's Name into English)

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

Tokyo, JAPAN

(Address of Principal Executive Offices)

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

Form 20-F Form 40-F

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

Yes No

Table of Contents

Table of Documents Filed

	Page
1. <u>On August 14, 2008, ORIX Corporation (the Company) filed its quarterly financial report (shihanki houkokusho) with the Kanto Financial Bureau in Japan. This document is an English translation of consolidated financial information prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for the three months ended June 30,2008, and the fiscal year ended March 31, 2008. This translation is unaudited.</u>	

Table of Contents

SIGNATURES

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

ORIX Corporation

Date: August 14, 2008

By /s/ Tadao Tsuya
Tadao Tsuya
Executive Officer
ORIX Corporation

Table of Contents

THE CONSOLIDATED FINANCIAL INFORMATION

1. On August 14, 2008, ORIX Corporation (the Company) filed its quarterly financial report (shihanki houkokusho) with the Kanto Financial Bureau in Japan. This document is an English translation of consolidated financial information prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for the three months ended June 30,2008, and the fiscal year ended March 31, 2008. This translation is unaudited.
2. Significant differences between U.S. GAAP and generally accepted accounting principles in Japan (Japanese GAAP) are stated in the notes of Overview of Accounting Principles Utilized.

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

	Millions of yen	
	Three months ended June 30, 2008	Fiscal year ended March 31, 2008
Total Revenues	272,301	1,153,988
Income before Income Taxes, Minority Interests in Earnings of Subsidiaries, Discontinued Operations and Extraordinary Gain	50,736	249,763
Net Income	32,359	169,597
Shareholders' Equity	1,251,832	1,267,917
Total Assets	9,005,411	8,994,970
Shareholders' Equity Per Share (yen)	14,111.43	14,010.62
Basic Earnings Per Share (yen)	362.96	1,860.63
Diluted Earnings Per Share (yen)	356.09	1,817.81
Shareholders' Equity Ratio (%)	13.90	14.10
Cash Flows from Operating Activities	(26,740)	156,287
Cash Flows from Investing Activities	(85,605)	(838,331)
Cash Flows from Financing Activities	29,024	792,966
Cash and Cash Equivalents at End of Period	239,267	320,655
Number of Employees	19,386	18,702

- Note: 1. Consumption tax is excluded from the stated amount of total revenues.
 2. As a result of the recording of Discontinued Operations in accordance with FASB Statement No.144 (Accounting for impairment or Disposal of Long-lived Assets), certain amounts in the fiscal year ended March 31, 2008 have been reclassified retroactively.

(2) Overview of Activities

The ORIX Group consists of consolidated subsidiaries 219 companies and affiliates 102 companies, and has various businesses.

The main contents of each operation and the positioning of ORIX Corporation and its subsidiaries are given below.

As of April 1, 2008, the Company implemented changes to its internal organization to recognize its businesses into six segments to facilitate formulating strategy, allocating resources and determining portfolio balance at the segment level. Certain related amounts that had been previously reported are reclassified.

Table of Contents

The following classification is the same as that used in the classification of information by segment.

(a) Corporate Financial Services

[Overview of Operations]

Loans, leases, fee businesses including the sale of financial products, environment-related business

[Main related companies]

ORIX Corporation, ORIX Alpha Corporation, NS Lease Co., Ltd.

(b) Maintenance Leasing

[Overview of Operations]

Automobile leasing and rentals, car sharing, precision measuring equipment rentals and IT-related equipment rentals and leases

[Main related companies]

ORIX Auto Corporation, ORIX Rentec Corporation

(c) Real Estate

[Overview of Operations]

Condominium development, office building and logistics facilities development and rental, hotel, golf course and training facilities operation, senior housing development and management, integrated facilities management and related services, and REIT asset management

[Main related companies]

ORIX Corporation, ORIX Real Estate Corporation, ORIX Facilities Corporation

(d) Investment Banking

[Overview of Operations]

Venture capital, principal investments, M&A advisory, real estate finance, commercial real estate asset securitization, and loan servicing (asset recovery) operations

[Main related companies]

ORIX Corporation, ORIX Asset Management & Loan Services Corporation, ORIX Capital Corporation, ORIX Investment Corporation, Fuji Fire and Marine Insurance Company Limited, DAIKYO INCORPORATED

(e) Retail

[Overview of Operations]

Housing loans, card loans, life insurance operations, securities brokerage and online trading

[Main related companies]

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ORIX Trust and Banking Corporation, ORIX Credit Corporation, ORIX Life Insurance Corporation, ORIX Securities Corporation

(f) Overseas Business

[Overview of Operations]

Leases, loans, investment in bonds, investment banking, real estate-related operations, ship- and aircraft-related operations

[Main related companies]

ORIX Corporation, ORIX USA Corporation, ORIX Asia Limited, ORIX Leasing Malaysia Berhad, PT.ORIX Indonesia Finance, ORIX Investment and Management Private Limited, ORIX Taiwan Corporation, ORIX Australia Corporation Limited,

ORIX Aviation Systems Limited

Table of Contents

Group Structure

The Structure of principal business of the ORIX Group is as follows:

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

Changes of principal related companies for the three months ended June 30, 2008 are as follows:

Additions:

There were no additions during the three months ended June 30, 2008.

Deletions:

There were no additions during the three months ended June 30, 2008.

(4) Number of Employees

The following shows the total number of employees in the Company and its subsidiaries as of June 30, 2008:

Number of employees
19,386

Note: (a) The above number is full-time basis.

(b) The average number of temporary employees is 6,818 for the three months ended June 30, 2008.

2. Operating Results**(1) Earnings Summary**

Total revenues and profit (loss) by segment for the three months ended June 30, 2008 are as follows:

	Millions of yen	
	Segment revenues	Segment profit
Corporate Financial Services	35,799	5,746
Maintenance Leasing	58,863	7,506
Real Estate	60,755	21,089
Investment Banking	23,336	7,257
Retail	49,650	7,258
Overseas Business	46,360	5,750
Subtotal	274,763	54,606
Difference between Segment Totals and Consolidated Amounts	(2,462)	(3,870)
Consolidated Amounts	272,301	50,736

Note: As of April 1, 2008, the Company implemented changes to its internal organization to recognize its businesses into six segments to facilitate formulating strategy, allocating resources and determining portfolio balance at the segment level. Certain related amounts that had been previously reported are reclassified.

Table of Contents**(2) Total Assets**

Total assets by segment at June 30, 2008 are as follows:

	Millions of yen	Composition ratio
Corporate Financial Services	1,949,418	21.7%
Maintenance Leasing	652,602	7.2
Real Estate	1,093,912	12.1
Investment Banking	1,708,800	19.0
Retail	1,485,175	16.5
Overseas Business	1,115,611	12.4
Subtotal	8,005,518	88.9
Difference between Segment Totals and Consolidated Amounts	999,893	11.1
Consolidated Amounts	9,005,411	100.0%

(3) New Business Volumes

New business volumes of direct financing leases, installment loans, operating leases, investment in securities, other operating assets for the three months ended June 30, 2008 are as follows:

	Millions of yen
Direct Financing Leases:	
New equipment acquisitions	112,879
Installment Loans:	
New loans added	359,587
Operating Leases:	
New equipment acquisitions	86,112
Investment in Securities:	
New securities added	195,084
Other Operating Transactions:	
New assets added	17,547

3. Material Contract

Not applicable

Table of Contents**4. Analysis of Financial Results and Condition**

The following discussion provides management's explanation of factors and events that have significantly affected our financial condition and results of operations. Also included is management's assessment of factors and trends which are anticipated to have a material effect on our financial condition and results of operations in the future. However, please be advised that financial conditions and results of operations in the future may also be affected by factors other than those discussed here. These factors and trends regarding future were assessed as of the issue date of quarterly financial report (Shihanki Houkokusho).

(1) Three Months Ended June 30, 2008**Economic Environment**

The world economy during the first quarter has seen an increased slowdown due to increasing global inflationary pressures, instability in financial systems and a general tightening of the credit markets.

The U.S. has seen an increasing unemployment rate since the beginning of the year, growing fears concerning the direction and health of the economy, and signs of prolonged confusion across the financial sector. In Asia, despite certain countries displaying strong growth potential, fluctuations in the capital and foreign exchange markets and heightened risks of inflation have become concerning factors.

Severity is starting to show in the Japanese economy amid signs of a decline in capital expenditure, worsening business confidence and a downturn in consumer sentiment in addition to the decelerating trend from the second half of fiscal 2008 resulting from falling housing investment, increased energy and raw materials costs and an appreciated yen.

Financial Highlights

Income Before Income Taxes (*)	¥50,736 million (Down 30% year on year)
Net Income	¥32,359 million (Down 29% year on year)
Earnings Per Share (Basic)	¥362.96 (Down 28% year on year)
Earnings Per Share (Diluted)	¥356.09 (Down 27% year on year)
Shareholders' Equity Per Share	¥14,111.43 (Up 1% on March 31, 2008)
ROE (annualized)	10.3% (June 30, 2007: 15.0%)
ROA (annualized)	1.44% (June 30, 2007: 2.16%)

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

Table of Contents

Revenues: ¥272,301 million (Down 3% year on year)

Revenues decreased 3% to ¥272,301 million compared to the same period of fiscal 2008. Although revenues from direct financing leases, interest on loans and investment securities, brokerage commissions and net gains on investment securities and real estate sales decreased year on year, revenues from operating leases, life insurance premiums and related investment income, gains on sales of real estate under operating leases and other operating revenues were up year on year.

Revenues from direct financing leases decreased 6% to ¥17,526 million compared to the same period of fiscal 2008. In Japan, revenues from direct financing leases were down 5% to ¥11,526 million compared to ¥12,151 million in the same period of fiscal 2008, due to declines in investments in direct financing leases, as a result of securitizations made during fiscal 2008, and a more prudent stance in selecting new transactions in light of the present business environment. Overseas, Asian operations performed well, however, revenues were down 8% to ¥6,000 million compared to ¥6,523 million in the same period of fiscal 2008, due to a decline in investment in direct financing leases in the U.S., in addition to the effects of an appreciated yen.

The Japanese leasing industry has seen competition rise sharply in recent years, with interest rates being cut to attract new contracts, and declines in business volume across the board. The strategy of the group continues to be one of prudent selection, choosing only those assets where the risk and return balance is felt to be appropriate, and avoiding the strategy of acquiring new transactions simply through lowering rates. Furthermore, in the field of automobile leases, business volumes for direct financing leases in Japan have declined, with an increasing shift away from finance lease transactions to operating lease transactions. The overall overseas balance for investment in direct financing leases increased, in part due to an expansion of automobile leasing operations in Asia, where demand remains strong, and in part due to an appreciated yen. These factors more than offset a reduction in leasing operations in the U.S. However, the increases overseas were not enough to cover the decreases in Japan, and the balance of investment in direct financing leases decreased from levels as of March 31, 2008.

Revenues from operating leases increased 4% to ¥72,441 million compared to the same period of fiscal 2008. In Japan, revenues were up 8% year on year to ¥54,293 million, compared to ¥50,486 million in the same period of fiscal 2008, due to an increase in automobile, real estate operating leases, and precision measuring and other equipment rental operations. Overseas, revenues were down 4% to ¥18,148 million, compared to ¥18,914 million in the same period of fiscal 2008, due to the absence of gains on sales of aircraft leases which had been realized in the same period of fiscal 2008 and the effect of an appreciated yen.

Operating lease transactions have increased in recent years, with the focus being on automobile and real estate operations in Japan. In the automobile operations, the number of leased vehicles has increased, with a trend towards increases in operating lease transactions in response to client needs. In the real estate operations, the business model is to develop and invest in rental properties, including office buildings and logistics facilities, and to sell the properties within a set time frame after stabilizing rental revenues. During the first quarter of fiscal 2009, there has been an increase in new rental contracts. In the precision measuring and other equipment rental operations, we have been acquiring and selling rental assets, while carefully watching demand. We also engage in overseas investment in and sales of ship and aircraft leases in response to market trends.

Revenues from interest on loans and investment securities decreased 6% to ¥51,121 million compared to the same period of fiscal 2008. In Japan, interest on loans and investment securities decreased 1% to ¥42,535 million compared to ¥43,153 million in the same period of fiscal 2008, due to a decrease in revenues from the loan servicing (asset recovery) operations, where revenues are recognized under the cost recovery method. Overseas, revenues were down 24% to ¥8,586 million compared to ¥11,270 million in the same period of fiscal 2008, due to lower market interest rates and the effect of an appreciated yen, despite an expansion of loans to corporate clients mainly in the U.S.

Table of Contents

Although we have been focusing on loans for corporate clients in the Corporate Financial Services, Investment Banking, and Overseas Business segments in recent years, we have adopted a more cautious approach for new transactions, given increasing uncertainty in the outlook for the economy from the beginning of the latter half of fiscal 2008.

As of June 30, 2008, ¥914,979 million, or 24%, of all outstanding installment loans were to real estate and construction companies. The loans have been collateralized mainly with real estate. Of this amount, ¥83,683 million has been individually evaluated and determined to be impaired and a related allowance of ¥10,673 million was recorded, with a trend towards increases compared with the same period of fiscal 2008.

A loss of ¥80 million recorded from brokerage commissions and net gains on investment securities was the result of uncertainty in the financial markets and a decline in securities-related transactions, compared to a gain of ¥7,999 million in the same period of fiscal 2008. Brokerage commissions decreased 34% year on year to ¥1,198 million, compared to ¥1,806 million in the same period of fiscal 2008. A loss on investment securities of ¥1,278 million was recorded due losses on investments in private equity funds. A gain of ¥6,193 million was recognized in the same period of fiscal 2008.

Life insurance premiums and related investment income were up 1% to ¥32,982 million compared to the same period of fiscal 2008 due to an increase in life insurance premiums for security insurance products, although life insurance related investment income was flat year on year.

Real estate sales decreased 46% year on year, to ¥9,430 million, due to an absence of gains from real estate sales in Oceania had been recorded in the same period of fiscal 2008, and a decrease in the number of condominiums sold in Japan compared to the same period of fiscal 2008. Residential condominiums developed through certain joint ventures are increasing, but are recorded under equity in net income of affiliates net of revenues and costs.

Gains on sales of real estate under operating leases were up 20% year on year to ¥9,801 million due to an increase in gains on sales of office buildings and other real estate not classified under discontinued operations (refer to (Note 1) below).

Other operating revenues increased 8% year on year to ¥79,080 million. In Japan, revenues were up 15% to ¥66,113 million compared to ¥57,341 million in the same period of fiscal 2008, due to contributions from the beginning of fiscal 2009 from the consolidated subsidiaries which had been acquired in fiscal 2008, and also an increase in revenues associated with real estate management operations including golf courses and training facilities. Overseas, revenues were down 20% to ¥12,967 million compared to ¥16,203 million in the same period of fiscal 2008, due to a decrease in ship finance-related revenues in Asia and the effects of an appreciated yen.

Note 1: Subsidiaries, business units, and certain rental properties sold or to be disposed of by sale, are reported under continuing operations or discontinued operations, and are dependent on the existence of significant continuing involvements. In the absence of significant continuing involvements, they are reported under discontinued operations and the related amounts that had been previously reported have been reclassified retroactively.

Table of Contents

Expenses: ¥235,970 million (Up 4% year on year)

Expenses increased 4% to ¥235,970 million compared to the same period of fiscal 2008. Although interest expense, costs of operating leases, other operating expenses, provision for doubtful receivables and probable loan losses and write-downs of securities increased year on year, life insurance costs costs of real estate sales, and selling, general and administrative expenses were down year on year.

Interest expense was up 6% to ¥26,168 million compared to the same period of fiscal 2008 due to an increase in Japan despite a decrease overseas. In Japan, interest expense increased 21% year on year due to an increase in the average debt levels as well as higher interest rates. Overseas, although there were higher average debt levels, interest expense decreased 20% year on year due to lower interest rates and the effects of an appreciated yen.

Costs of operating leases were up 11% to ¥49,892 million compared to the same period of fiscal 2008, mainly due to an increase in operating lease assets. In Japan, increased revenues were offset by larger increases in depreciation costs, resulting in a 15% increase to ¥36,810 million compared to the same period of fiscal 2008. Overseas, due to the effect of an appreciated yen, costs of operating leases increased 1% to 13,082 million compared to the same period of fiscal 2008.

Life insurance costs were down 2% year on year to ¥26,359 million due mainly to an increase in reversals of the provisions for future policy benefits, accompanying an increase in cancellation of savings-type insurance products compared to the same period of fiscal 2008.

Costs of real estate sales were down 26% year on year to ¥11,623 million due to an absence of the cost of real estate sales in Oceania recorded in fiscal 2008, in addition to a decrease in the number of condominiums sold in Japan compared to the same period of fiscal 2008, despite recognition of write-downs resulting from an increase in development costs for certain units under development in the condominium operations. Costs of real estate sales include upfront costs associated with advertising and model rooms.

Other operating expenses were up 11% year on year to ¥45,164 million resulting from the recognition of expenses from the beginning of fiscal 2009 from the consolidated subsidiaries in which we invested in fiscal 2008, as previously mentioned in other operating revenues.

Selling, general and administrative expenses were down 2% to ¥64,153 million compared to the same period of fiscal 2008 due to an absence of once-off write-downs of intangible assets recorded in the same period of fiscal 2008, although expenses associated with the consolidated subsidiaries in which we invested in fiscal 2008 were recorded from the beginning of fiscal 2009. Employee salaries and other personnel expenses account for approximately half of selling, general and administrative expenses.

Provision for doubtful receivables and probable loan losses increased 46% to ¥10,398 million. Provisions for direct financing leases were flat compared to the same period of fiscal 2008. Provisions for loans increased 62% compared to the same period of fiscal 2008 mainly due to an increase in the provision for real estate businesses.

Write-downs of securities were up 8% year on year to ¥1,915 million.

Table of Contents

Net Income: ¥32,359 million (Down 29% year on year)

Operating income was down 33% year on year to ¥36,331 million due to the reasons noted above.

Equity in net income of affiliates decreased 18% to ¥14,636 million due to a decrease in profits from equity in net income of affiliates accompanying the sales of overseas affiliates in fiscal 2008, despite an increase in profit from investments in residential condominiums developed through certain joint ventures in Japan.

Gains on sales of subsidiaries and affiliates, net resulted in a loss of ¥231 million, while a gain of ¥7 million was recognized in the same period of fiscal 2008.

As a result, income before income taxes, minority interests in earnings of subsidiaries and discontinued operations decreased 30% year on year to ¥50,736 million.

Minority interests in earnings of subsidiaries, net decreased 28% year on year to ¥710 million.

Income from continuing operations decreased 30% year on year to ¥29,607 million.

Discontinued operations, net of applicable tax effect (refer to (Note 1) on page 3) decreased 24% to ¥2,752 million year on year due mainly to a decrease in gains on sales of real estate under operating leases in Japan.

As a result of the foregoing changes, net income decreased 29% year on year to ¥32,359 million.

Operating Assets: ¥7,310,437 million (Up 1% on March 31, 2008)

Operating assets were up 1% on to ¥7,310,437 million compared to March 31, 2008. As a result of our continuing selectiveness of transactions, investment in direct financing leases and installment loans were flat compared to March 31, 2008, while investment in operating leases, investment in securities and other operating assets increased.

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

With the aim of continuing medium- and long-term company growth, ORIX has realigned, and presently operates under a reorganized structure to respond flexibly and swiftly to changes in market conditions. As of April 1, 2008, ORIX Group implemented changes to its internal organization to reorganize its businesses into six segments to facilitate formulating strategy, allocating resources and determining portfolio balance at the segment level. These six new business segments are: Corporate Financial Services, Maintenance Leasing, Real Estate, Investment Banking, Retail and Overseas Business.

Management believes reorganizing its businesses into these six new segments addresses the significant changes in the ORIX Group's operations and lines of business over the past four to five years. Each segment is organized as a large strategic unit that we believe will allow us to maximize our corporate value by identifying and building strategic advantages vis-à-vis anticipated competitors in each area and by helping ORIX Group obtain a competitive advantage.

Financial information about its operating segments reported below is information that is separately available and evaluated regularly by the management in deciding how to allocate resources and in assessing performance.

Segment information for the first quarter of fiscal 2009 follows below.

Segment profits (refer to (Note 2) below) declined year on year for the Corporate Financial Services, Maintenance Leasing, Investment Banking, Retail, and Overseas segments; and increased for the Real Estate segments compared to the same period of fiscal 2008.

Note 2: The Company evaluates the performance of its segments based on income before income taxes as well as results of discontinued operations and minority interests in earnings of subsidiaries, before applicable tax effect. Tax expenses are not included in segment

profits.

Table of Contents

Corporate Financial Services Segment:

The present business environment for the Corporate Financial Services segment has drastically changed since the latter half of fiscal 2008. In the first quarter of fiscal 2009, the real estate and construction industries especially have seen increased funding troubles and an increasing number of bankruptcies due to the effects of falling demand, higher material costs, a tightened funding environment, and a revised Building Standards Law. The Corporate Financial Services segment is in close contact with risk management units working to contain any future increase in the provision for doubtful receivables and probable loan losses through swift collection of loans and increased collateral requirements.

Segment revenues were up 15% year on year to ¥35,799 million compared to ¥31,219 million in the same period of fiscal 2008, due to contributions from the beginning of fiscal 2009 from companies in which we invested in fiscal 2008, in addition to an increase in revenues from interest on installment loans resulting from an increased average balance of investments in loans, despite a decrease in direct financing lease revenues.

Segment profits decreased 21% to ¥5,746 million compared to ¥7,253 million in the same period of fiscal 2008 due to expenses recorded from the beginning of fiscal 2009 from the consolidated subsidiaries in which we invested in fiscal 2008, in addition to an increase in provisions specifically for loans to real estate businesses, as well as an increase in interest expense, despite an increase in operating profits.

Segment assets decreased 2% to ¥1,949,418 million compared to March 31, 2008 due to decreases in investment in direct financing leases and loans to corporate clients, as a result of our increased prudence in the selection of new transactions in response to increased credit risks from the changing environment.

Maintenance Leasing Segment:

Segment revenues increased 5% year on year to ¥58,863 million compared to ¥56,190 million in the same period of fiscal 2008, due to an increase in revenues from operating leases in the automobile leasing and rental operations.

Segment profits decreased 13% to ¥7,506 million compared to ¥8,667 million in the same period of fiscal 2008 due to an increase in operating expenses, including depreciation costs, in line with an increase in operating assets, and an increase in automobile maintenance service expenses, due to rising crude oil prices, in addition to an increase in interest expense.

Segment assets were flat at ¥652,602 million compared to March 31, 2008 due to a decrease in investment in direct financing leases, despite an expansion of operating lease assets.

Table of Contents

Real Estate Segment:

The domestic real estate operating environment is experiencing severe conditions, particularly in the area of residential condominiums, and real estate sales are on a decreasing trend due to the cautious stance of financial institutions in lending to the real estate sector. Plans for units under development in the condominium operations continue to be reviewed with the focus on profitability. However, the sale of large-scale condominiums developed through certain joint ventures and rental real estate assets for the first quarter of fiscal 2009 performed within expectations. Moving forward, we will continue our policy of proactively approaching rental real estate considered to project sufficient profitability from a medium-term standpoint and promoting asset turnover.

Furthermore, this segment incorporates the international real estate businesses, centered on Asia and the Middle East, in addition to the original domestic real estate businesses.

Segment revenues decreased 11% to ¥60,755 million compared to ¥68,408 million in the same period of fiscal 2008, due to the absence of real estate sales recorded in Oceania in the same period of fiscal 2008, in addition to a decrease in the number of condominiums sold recognized under real estate sales. These factors more than offset an increase in gains on sales of real estate under operating leases, and an increase in revenues associated with the real estate rental operations including office buildings, and management operations including golf courses and training facilities.

Segment profits increased 8% to ¥21,089 million compared to ¥19,598 million in the same period of fiscal 2008, due to an increase in the contribution from condominiums developed through certain joint ventures which were accounted for under the equity method, in addition to an increase in gains on sales of real estate under operating leases. These factors more than offset a decrease in operating profit and the recognition of a write-down due to an increase in development costs for certain condominiums under development, in addition to an increase in interest expenses. Furthermore, the total number of condominiums sold, including those developed through certain joint ventures which were accounted for under the equity method, was 739 units in the first period of fiscal 2009, compared to 830 units in the same period of fiscal 2008.

Segment assets increased 2% to ¥1,093,912 million compared to March 31, 2008, due mainly to an increase in operating assets, including operating lease assets.

Investment Banking Segment:

This segment consists of operations that are susceptible to the trends and directions of the financial markets. As a result of the effects of the global credit crunch, triggered by the subprime loan problem, and the effects of financial system instability, confusion continues in the financial markets and the securities-related business environment continues to be severe.

Segment revenues decreased 22% to ¥23,336 million compared to ¥29,998 million in the same period of fiscal 2008, due to the recognition of losses from investments in private equity funds, and a decrease in revenues from interest on installment loans resulting from a decrease in revenues in the loan servicing (asset recovery) operations, despite increased interest from securities due to an increase in the specified bonds issued by special purpose entities, or SPEs.

Segment profits decreased 59% to ¥7,257 million compared to ¥17,855 million in the same period of fiscal 2008, due to a decrease in segment revenues and a decrease in profits from equity method affiliates in Japan, along with an increase in interest expenses.

Segment assets were flat at ¥1,708,800 million compared to March 31, 2008.

Table of Contents

Retail Segment:

Segment revenues were slightly down to ¥49,650 million compared to ¥49,816 million in the same period of fiscal 2008, due to a decrease in revenues from brokerage commissions on investment securities in the securities brokerage business, despite increases in revenues in the housing loan operations and life insurance premiums in the life insurance operations due to a contribution from new security insurance products.

Segment profits decreased 9% to ¥7,258 million compared to ¥7,950 million in the same period of fiscal 2008, mainly due to the above-mentioned decrease in revenues from brokerage commissions on investment securities in the securities brokerage business.

Segment assets were up 2% to ¥1,485,175 million compared to March 31, 2008.

Overseas Business Segment:

The U.S. corporate finance sector continues to be affected by the credit crunch and financial system instability. Due to these factors, ORIX Group's strategy for new investments continues to be one of prudence, taking advantage of revenue generating opportunities.

In economically strong Asian regions, we are developing principal investment and non-performing loan investment businesses based on long-standing relationships with local business partners, capitalizing on our capabilities and expertise accumulated in Japan and the U.S.

Segment revenues decreased 17% to ¥46,360 million compared to ¥56,141 million in the same period of fiscal 2008, due to a decrease in ship-related revenues and a decrease in revenues from interest on installment loans resulting from lower market rates, despite an increase in corporate loans in the U.S., losses on trading securities resulting from the worsening of the securities market, a decrease in aircraft sales revenues, in addition to the effects of an appreciated yen compared to the same period of fiscal 2008.

Segment profits decreased 66% to ¥5,750 million compared to ¥16,964 million in the same period of fiscal 2008 accompanying a decrease in segment revenues, a decrease in profits from the equity method investments as a result of sales of affiliates in Asia, and an absence of a reversal of provisions for doubtful receivables and probable loan losses in the U.S. recorded during the same period of fiscal 2008.

Segment assets increased 8% to ¥1,115,611 million compared to March 31, 2008.

Table of Contents**(2) Liquidity and Capital Resources**

ORIX Group's funding from long- and short-term debt and acceptance of deposits on a consolidated basis, as of June 30, 2008, was 6,383 billion yen.

Funding was mainly comprised of borrowings from financial institutions and direct fund procurement from capital markets. Borrowings were procured from a diverse range of financial institutions including major banks, regional banks, foreign banks and life and casualty insurance companies, for a total of approximately 230 institutions. Procurement from the capital markets was composed of the issuance of ORIX straight bonds, commercial paper (CP), medium-term notes issued by ORIX and two overseas subsidiaries, the securitization of operating assets, and through equity and other equity-related finance. The ratio of funding, including deposits, from capital markets to total debt with deposits was 47%.

As strengthening funding stability and lowering funding costs is the most important subject in financial activity, we are striving to diversify and decentralize funding methods while aiming to increase the efficiency of funds. For this reason, in addition to implementing a cash management system with our domestic subsidiaries to concentrate fund management, we are proactively working on stable funding through such methods as CP sales to investors, issuance of straight bonds to individual and institutional investors, and the securitization of various assets such as lease receivables, installment loans and investment securities. We are also securing liquidity through methods such as establishing committed credit lines.

Although the effects of the credit crunch caused by the US sub-prime residential loan problem were seen in the global economy, our funds procurement ability remains stable.

Debt**(a) Short-term debt**

	June 30, 2008 (Millions of yen)	March 31, 2008 (Millions of yen)
Borrowings from financial institutions	688,209	655,549
Commercial paper	692,847	661,550
Medium-term notes	7,473	13,048
Total	1,388,529	1,130,147

Short-term debt at the end of the first fiscal quarter was 1,388,529 million yen, 24% of the total amount of debt compared to 23% at the end of the previous fiscal year.

(b) Long-term debt

	June 30, 2008 (Millions of yen)	March 31, 2008 (Millions of yen)
Borrowings from financial institutions	2,726,541	2,693,233
Bonds	1,296,721	1,270,428
Medium-term notes	110,251	123,606
Payable under securitized lease and loan receivables	354,442	374,920
Total	4,487,955	4,462,187

Long-term debt at the end of the first fiscal quarter was 4,487,955 million yen, 76% of the total amount of debt compared to 77% at the end of the previous fiscal year. 61% of long-term debt consisted of borrowings from financial institutions.

Table of Contents

(3) Summary of Cash Flows

Cash and cash equivalents decreased by ¥81,388 million to ¥239,267 million compared to March 31, 2008.

Cash flows from operating activities used ¥26,740 million in the first quarter of fiscal 2009 compared to ¥74,086 million in the same period of fiscal 2008 resulting from an inflow from a decrease in inventories, and the adjustments of net income such as depreciation and amortization and provision for doubtful receivables and probable loan losses, despite an increase in outflow associated with an increase in prepaid expenses in addition to a decrease in net income compared to the same period of fiscal 2008.

Cash flows from investing activities used ¥85,605 million in the first quarter of fiscal 2009 and used ¥395,447 million in the same period of fiscal 2008 due to a decrease in installment loans made to customers, which was less than principal collected on installment loans, resulting from the implementation of a more prudent stance for new transactions, and increases in proceeds from sales of available-for-sale securities and proceeds from redemption of available-for-securities compared to the same period of fiscal 2008, despite an increase in volume of new investments in securities.

Cash flows from financing activities provided ¥29,024 million in the first quarter in fiscal 2009 and provided ¥442,426 million in the same period of fiscal 2008 due to a decrease in proceeds from debts and an increase in repayment of debts.

(4) Challenges to be addressed

There were not any significant changes.

(5) Research and Development Activity

There were not any significant changes.

Table of Contents**5. Overview of Facilities****(1) Facilities for Rent**

(a) New equipment acquisitions

In association with the operating lease business, the Company and its subsidiaries own facilities for rent. New equipment acquisitions were ¥86,112 million for the three months ended June 30, 2008.

(b) Details of facilities for rent

Details of facilities for rent at June 30, 2008 are as follows:

	Millions of yen	Composition ratio
Transportation equipment	609,063	43.2%
Measuring equipment and personal computers	180,356	12.8
Real estate and other	621,231	44.0
Subtotal	1,410,650	100.0%
Accumulated depreciation	(366,170)	
Net	1,044,480	
Rental receivables	15,424	
Total	1,059,904	

For the three months ended June 30, 2008, the Company and its subsidiaries wrote down certain facilities for rent to their fair value under the provisions of FASB Statement No. 144 (Accounting for the Impairment or Disposal of Long-Lived Assets).

(c) Plans for acquisition and disposal of facilities

For the three months ended June 30, 2008, there were not any significant changes in acquisition and disposal of facilities.

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

(a) Overview of facilities not for rent

The Company and its subsidiaries own the following facilities:

Head-office buildings

Facilities for welfare

Facilities for management such as golf courses and training facility

(b) Status of main facilities not for rent

i) The Company

For the three months ended June 30, 2008, there were not any significant changes of major facilities.

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ii) Subsidiaries in Japan

For the three months ended June 30, 2008, there were not any significant changes of major facilities.

iii) Overseas subsidiaries

For the three months ended June 30, 2008, there were not any significant changes of major facilities.

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

For the three months ended June 30, 2008, there were not any significant changes in acquisition and disposal of facilities not for rent.

Table of Contents**6. Company Stock Information**

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

The information of the number of outstanding shares, the amount of common stock and additional paid-in capital for the three months ended June 30, 2008 is as follows:

In thousands		Millions of yen			
Number of outstanding shares		Common stock		Additional paid-in capital	
Increase, net	June 30, 2008	Increase, net	June 30, 2008	Increase, net	June 30, 2008
11	92,204	60	102,167	60	129,347

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

(2) List of Major Shareholders

(a) Fidelity Investments Japan Limited, FMR LLC, jointly filed an amended report as required under Japanese regulations on May 22, 2008 that shows their share holdings of the Company as of May 15, 2008. But the reported number of shares held is not able to be confirmed against the list of shareholders because it has not been updated since March 31, 2008.

Name	Number of shares held (in thousands)	Percentage of total shares in issued
Fidelity Investments Japan Limited	219	0.24%
FMR LLC	3,548	3.85
Total	3,767	4.09%

(b) Capital Research and Management Company, Capital Guardian Trust Company, Capital International Limited, Capital International Inc, Capital International S.A., jointly filed an amended report as required under Japanese regulations on June 9, 2008 that shows their share holdings of the Company as of June 2, 2008. But the reported number of shares held is not able to be confirmed against the list of shareholders because it has not been updated since March 31, 2008.

Name	Number of shares held (in thousands)	Percentage of total shares in issued
Capital Research and Management Company	2,259	2.45%
Capital Guardian Trust Company	4,662	5.06
Capital International Limited	1,054	1.14
Capital International Inc.	1,679	1.82
Capital International S.A.	394	0.43
Total	10,051	10.90%

Table of Contents

(c) Barclays Global Investors Japan Ltd., Barclays Global Investors, N.A., Barclays Global Fund Advisors, Barclays Global Investors Ltd., jointly filed an amended report as required under Japanese regulations on July 7, 2008 that shows their share holdings of the Company as of June 30, 2008. But the reported number of shares held is not able to be confirmed against the list of shareholders because it has not been updated since March 31, 2008.

Name	Number of shares held (in thousands)	Percentage of total shares in issued
Barclays Global Investors Japan Ltd.	1,279	1.39%
Barclays Global Investors, N.A.	1,354	1.47
Barclays Global Fund Advisors	664	0.72
Barclays Global Investors Ltd.	819	0.89
Total	4,118	4.47%

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

Assets	June 30, 2008 Millions of yen	March 31, 2008 Millions of yen
Cash and Cash Equivalents	239,267	320,655
Restricted Cash	158,414	143,883
Time Deposits	1,031	511
Investment in Direct Financing Leases	1,103,498	1,098,128
Installment Loans	3,757,992	3,766,310
Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses	(108,920)	(102,007)
Investment in Operating Leases	1,059,904	1,019,956
Investment in Securities	1,189,199	1,121,784
Other Operating Assets	199,844	197,295
Investment in Affiliates	309,399	327,763
Other Receivables	260,191	284,286
Inventories	238,516	232,850
Prepaid Expenses	56,297	47,657
Office Facilities	88,950	89,533
Other Assets	451,829	446,366
Total Assets	9,005,411	8,994,970

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

	June 30, 2008	March 31, 2008
	Millions of yen	Millions of yen
Liabilities and Shareholders Equity		
Liabilities:		
Short-Term Debt	1,388,529	1,330,147
Deposits	506,990	470,683
Trade Notes, Accounts Payable and Other Liabilities	368,379	392,346
Accrued Expenses	80,664	112,461
Policy Liabilities	477,461	486,379
Current and Deferred Income Taxes	225,156	267,692
Security Deposits	174,074	163,872
Long-Term Debt	4,487,955	4,462,187
Total Liabilities	7,709,208	7,685,767
Minority Interests	44,371	41,286
Commitments and Contingent Liabilities		
Shareholders Equity:		
Common Stock	102,167	102,107
Additional Paid-in Capital	135,795	135,159
Retained Earnings:		
Legal reserve	2,220	2,220
Retained earnings	1,090,067	1,081,219
Subtotal	1,092,287	1,083,439
Accumulated Other Comprehensive Income (Loss)	(15,648)	(19,295)
Treasury Stock, at Cost	(62,769)	(33,493)
Total Shareholders Equity	1,251,832	1,267,917
Total Liabilities and Shareholders Equity	9,005,411	8,944,970

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

	Three months ended June 30, 2008 Millions of yen
Revenues:	
Direct financing leases	17,526
Operating leases	72,441
Interest on loans and investment securities	51,121
Brokerage commissions and net gains (losses) on investment securities	(80)
Life insurance premiums and related investment income	32,982
Real estate sales	9,430
Gains on sales of real estate under operating leases	9,801
Other operating revenues	79,080
Total revenues	272,301
Expenses:	
Interest expense	26,168
Costs of operating leases	49,892
Life insurance costs	26,359
Costs of real estate sales	11,623
Other operating expenses	45,164
Selling, general and administrative expenses	64,153
Provision for doubtful receivables and probable loan losses	10,398
Write-downs of securities	1,915
Foreign currency transaction loss, net	298
Total expenses	235,970
Operating Income	36,331
Equity in Net Income of Affiliates	14,636
Gains (Losses) on Sales of Subsidiaries and Affiliates, Net	(231)
Income before Income Taxes, Minority Interests in Earnings of Subsidiaries and Discontinued Operations	50,736
Provision for Income Taxes	20,419
Income before Minority Interests in Earnings of Subsidiaries and Discontinued Operations	30,317
Minority Interests in Earnings of Subsidiaries, Net	710
Income from Continuing Operations	29,607
Discontinued Operations:	
Income from discontinued operations, net	4,656
Provision for income taxes	(1,904)
Discontinued operations, net of applicable tax effect	2,752
Net Income	32,359

Table of Contents

Per Share Data (Unaudited)

	Yen Three months ended June 30, 2008
Earnings Per Share-Basic:	
Income from Continuing Operations	332.09
Discontinued Operations	30.87
Net Income	362.96
Earnings Per Share-Diluted:	
Income from Continuing Operations	326.07
Discontinued Operations	30.02
Net Income	356.09

Table of Contents**(3) Condensed Consolidated Statement of Cash Flows**

	Millions of yen Three months ended June 30, 2008
Cash Flows from Operating Activities:	
Net income	32,359
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	45,431
Provision for doubtful receivables and probable loan losses	10,398
Decrease in policy liabilities	(8,918)
Equity in net income of affiliates	(14,636)
Gains on sales of subsidiaries and affiliates, net	231
Minority interests in earnings of subsidiaries, net	710
Gains on sales of available-for-sale securities	(1,118)
Gains on sales of real estate under operating leases	(9,801)
Gains on sales of operating lease assets other than real estate	(2,499)
Write-downs of securities	1,915
Increase in restricted cash	(14,273)
Increase in loans held for sale	(6,366)
Increase in trading securities	(713)
Increase in inventories	(8,039)
Increase in prepaid expenses	(8,505)
Decrease in accrued expenses	(28,880)
Increase in security deposits	5,770
Other, net	(19,806)
 Net cash used in operating activities	 (26,740)

	Millions of yen Three months ended June 30, 2008
Cash Flows from Investing Activities:	
Purchases of lease equipment	(201,394)
Principal payments received under direct financing leases	114,339
Installment loans made to customers	(347,986)
Principal collected on installment loans	379,318
Proceeds from sales of operating lease assets	39,458
Investment in affiliates, net	4,942
Proceeds from sales of investment in affiliates	1,606
Purchases of available-for-sale securities	(150,329)
Proceeds from sales of available-for-sale securities	63,990
Proceeds from redemption of available-for-sale securities	40,905
Purchases of other securities	(44,755)
Proceeds from sales of other securities	14,792
Purchases of other operating assets	(2,369)
Acquisitions of subsidiaries, net of cash acquired	(1,750)
Other, net	3,628
 Net cash used in investing activities	 (85,605)

Cash Flows from Financing Activities:	
Net decrease in debt with maturities of three months or less	(114,648)

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Proceeds from debt with maturities longer than three months	614,712
Repayment of debt with maturities longer than three months	(432,983)
Net increase in deposits due to customers	36,128
Issuance of common stock	120
Dividends paid	(23,529)
Net decrease in call money	(21,500)
Acquisition of treasury stock	(29,290)
Other, net	14
Net cash provided by financing activities	29,024
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,933
Net Decrease in Cash and Cash Equivalents	(81,388)
Cash and Cash Equivalents at Beginning of Period	320,655
Cash and Cash Equivalents at End of Period	239,267

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

Table of Contents

Notes to Consolidated Financial Statements

1. Overview of Accounting Principles Utilized

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

Since the Company listed on the New York Stock Exchange in September 1998, the Company has filed the annual report (Form 20-F) including the consolidated financial statements based on terms, formats and preparations pursuant to the rules regarding issuing American Depositary Receipts and registered with the Securities and Exchange Commission.

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

(a) Initial direct costs

Under U.S. GAAP, certain initial costs to originate lease or loan (initial direct costs) are being deferred and amortized as yield adjustments over the life of related lease or loan by using interest method.

On the other hand, under Japanese GAAP, those initial direct costs are recognized as expenses when they are incurred.

(b) Operating leases

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

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

Table of Contents

(c) Accounting for life insurance operations

Based on FASB Statement No. 60 (Accounting and Reporting by Insurance Enterprises), certain costs associated with writing insurances or, deferred policy acquisition costs, are being deferred and amortized over the respective policy periods in proportion to anticipated premium revenue.

Under Japanese GAAP, such costs are recorded as expenses currently in earnings in each accounting period.

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

(d) Accounting for business combinations, goodwill and other intangible assets

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

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

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

(e) Accounting for pension plans

Under U.S. GAAP, the Company and its subsidiaries apply FASB Statement No. 87 (Employers Accounting for Pensions) and record pension costs based on the amounts determined using actuarial methods. The net actuarial loss is amortized using a corridor test. The Company and its subsidiaries also apply the recognition and disclosure provisions of FASB Statement No. 158 (Employers Accounting for Defined Benefits Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)), and recognize the funded status of pension plans, measured as the difference between the fair value of plan assets and the benefit obligation, on the consolidated balance sheet.

Under Japanese GAAP, the unrealized net actuarial loss is fully amortized over a certain term within the average remaining service period of employees expected to receive related benefits. The pension liabilities are recorded for the difference between the plan assets and the benefit obligation, net of unrecognized prior service cost and net actuarial loss, on the consolidated balance sheet.

(f) Reporting on discontinued operations

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

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

Table of Contents

(g) Minority interests

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

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

(h) Segment information

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

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

(i) Classification in consolidated statement of cash flows

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

2. Significant Accounting and Reporting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Investments in affiliates, where the Company has the ability to exercise significant influence by way of 20%-50% ownership or other means, are accounted for by using the equity method. For certain entities where the Company holds majority voting interests but minority shareholders have substantive participation rights to decisions that occur as part of the ordinary course of their business, the equity method is applied pursuant to Emerging Issue Task Force (EITF) 96-16 (Investor's accounting for an investee when the investor has a majority of the voting interest but the minority shareholder or shareholders have certain approval or veto rights). In addition, the consolidated financial statements also include variable interest entities to which the Company and its subsidiaries are primary beneficiaries pursuant to FASB Interpretation No. 46 (revised December 2003) (FIN 46(R)) (Consolidation of Variable Interest Entities).

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.

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

(b) Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company has identified nine areas where it believes assumptions and estimates are particularly critical to the financial statements. These are the determination and periodic reassessment of the unguaranteed residual value for direct financing leases and operating leases (see (d)), the determination and reassessment of insurance policy liabilities and deferred policy acquisition costs (see (e)), the determination of the allowance for doubtful receivables on direct financing leases and probable loan losses (see (f)), the determination of impairment of long-lived assets (see (g)), the determination of impairment of investment in securities (see (h)), the determination of valuation allowance for deferred tax assets and the evaluation of tax positions (see (i)), assessment and measurement of effectiveness in hedging relationship using derivative financial instruments (see (k)), the determination of benefit obligation and net periodic pension cost (see (l)) and the determination of impairment of goodwill and intangible assets not subject to amortization (see (v)).

Table of Contents

(c) Foreign currencies translation

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

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

(d) Recognition of revenues

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

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

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

(1) Recognition of revenues for direct financing leases

Direct financing leases consist of full-payout leases for various equipment types, including office equipment, industrial machinery and transportation equipment. 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 initial costs to originate lease (initial direct costs) are being deferred and amortized as a yield adjustment over the life of related lease by using interest method. The unamortized balance of initial direct costs is reflected as a component of investment in direct financing leases. Amortization of unearned lease income and initial direct cost are computed using the interest method.

Table of Contents

(2) Recognition of revenues for operating leases

Revenues from operating leases are recognized on a straight-line basis over the contract terms. Operating lease assets are stated at cost less accumulated depreciation, which was ¥366,170 million and ¥350,584 million at June 30, 2008 and March 31, 2008, respectively. Operating lease assets are depreciated over their estimated useful lives mainly on a straight-line basis. 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 real estate under operating leases such as commercial buildings, the Company or its subsidiaries may retain an interest in some cash flows from the real estate in the form of property management or other participation in performance of the lease asset. Where the Company or its subsidiaries have continuing involvement with the cash flows from such previously leased real estate disposed, 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, the gains or losses are reported as Discontinued operations-Income from discontinued operations, net.

Estimates of residual values are based on current market values of used equipment and estimates of when and how much equipment will become obsolete.

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

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

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

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

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

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

Table of Contents

(e) Insurance premiums and expenses

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

Amortization charged to income for the three months ended June 30, 2008 amounted to ¥2,385 million.

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

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

Developing the allowance for doubtful receivables on direct financing leases and probable loan losses is subject to numerous estimates and judgments. In evaluating the adequacy of the allowance, management considers various factors, including the nature and characteristics of the obligors, current economic conditions and trends, prior charge-off experience, current delinquencies and delinquency trends, future cash flows expected to be received from the direct financing leases and loans and the value of underlying collateral and guarantees. Generally, the valuation allowance for large balance non-homogeneous loans is individually assessed to determine whether the loan is impaired. If the loan is deemed to be impaired, it is evaluated based on the present value of expected future cash flows, the loan's observable market price or the fair value of the collateral securing the loan if the loan is collateral-dependent. The allowance for losses on smaller-balance homogeneous loans, including individual housing loans and card loans which are not restructured, and lease receivables, is collectively evaluated, considering current economic conditions and trends, the value of underlying collateral and guarantees, prior charge-off experience, delinquencies and non-accruals.

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

(g) Impairment of long-lived assets

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

Table of Contents

(h) Investment in securities

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

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

Other securities are recorded at cost or under equity method.

For available-for-sale securities, the Company and its subsidiaries generally recognize losses related to equity securities for which the fair value 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. Also, the Company and its subsidiaries charge against income losses related to equity securities in situations where, even though the fair value has not remained significantly below the carrying value for six months, the decline in the fair value of an equity security is based on issuer specific economic conditions and not just general declines in the related market and where it is considered unlikely that the fair value of the equity security will recover within the next six months. In addition, the Company and its subsidiaries charge against income losses related to debt securities in situations where it is considered that the decline in the fair value of a debt security is other than temporary because there has been a significant deterioration in a bond issuer's credit rating, an issuer's default or a similar event.

For other securities, the Company and its subsidiaries reduce the carrying value of other security to the fair value and charge against income losses related to other securities in situations where it is considered that the decline in the value of other security is other than temporary.

(i) Income taxes

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

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

The effective income tax rates are 40.2% for the three months ended June 30, 2008. The Company and its subsidiaries in Japan are subject to a National Corporate tax of 30%, an Inhabitant tax of approximately 6% and a deductible Enterprise tax of approximately 8%, which in the aggregate resulted in a statutory income tax rate of approximately 40.9% for the three months ended June 30, 2008. The effective income tax rate is different from the statutory tax rate primarily because of certain non-deductible expenses for tax purposes, a change in valuation allowance and the effect of lower income tax rates on foreign subsidiaries and a life insurance subsidiary in Japan.

The Company and its subsidiaries have followed FASB Interpretation No. 48 (Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109). According to the interpretation, the Company and its subsidiaries recognize the financial statement effects of a tax position taken or expected to be taken in a tax return when it is more likely than not, based on the technical merits, that the position will be sustained upon tax examination, including resolution of any related appeals or litigation processes, and measure the tax position that meets the recognition threshold at the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with the taxing authority. The Company and its subsidiaries classify penalties and interest expense related to income taxes as part of provision for income taxes in the consolidated statement of income.

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

The Company and its subsidiaries have securitized and sold to investors certain lease receivables, loan receivables and investment in securities. In the securitization process, the assets to be securitized (the assets) are sold to trusts and special-purpose entities that issue asset-backed beneficial interests and 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 sold and the portion that continue to be held, 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.

Interests that continue to be held include senior interests, subordinated interests and cash reserve account. Interests that continue to be held 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 interests that continue to be held is other than temporary, the Company and its subsidiaries consider the value of the interests that continue to be held to be impaired and record a write-down of the interests that continue to be held to fair value.

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

(k) Derivative financial instruments

The Company and its subsidiaries apply FASB Statement No. 133 (Accounting for Derivative Instruments and Hedging Activities) and all derivatives held by the Company and its subsidiaries are recognized on the balance sheet at fair value. The accounting treatment of subsequent changes in their fair value depends on their use, and whether they qualify as effective hedges for accounting purposes. Derivatives that are not hedges must be adjusted to fair value through the income statement. If a derivative is a hedge, then depending on its nature, changes in its fair value will be either offset against change in the fair value of hedged assets or liabilities through the income statement, or recorded in other comprehensive income (loss).

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

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

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

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

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

Table of Contents

(l) Pension plans

The Company and certain subsidiaries have contributory and non-contributory funded pension plans covering substantially all of their employees. The Company and its subsidiaries apply 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 its subsidiaries also apply the recognition and disclosure provisions of FASB Statement No. 158 (Employees Accounting for Defined Benefits Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)), and recognize the funded status of pension plans, measured as the difference between the fair value of plan assets and the benefit obligation, on the consolidated balance sheet. Changes in that funded status are recognized in the year in which the changes occur through other comprehensive income (loss), net of applicable income taxes.

(m) Stock-based compensation

The Company and its subsidiaries apply FASB Statement No. 123 (revised 2004) (FASB Statement No. 123(R)) (Share-Based Payment). FASB Statement No. 123(R) requires, with limited exception, that the cost of employee services received in exchange for an award of equity instruments be measured based on the grant-date fair value. The costs are recognized over the requisite employee service period.

(n) Stock splits

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

As a result of a revision to the Code before amendment effective on October 1, 2001 and Company Law implemented on May 1, 2006, the above-mentioned method of accounting required by the Code 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 June 30, 2008 would have increased by approximately ¥24,674 million, with a corresponding decrease in retained earnings. Total shareholders equity would remain unchanged. A stock split on May 19, 2000 was excluded from the above amounts because the stock split was not considered to be a stock dividend under accounting principles generally accepted in the United States of America.

Table of Contents

(o) Cash and cash equivalents

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

(p) Restricted cash

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

(q) Installment loans

Certain loans, which the Company has the intent and ability to sell or securitize to outside parties in the foreseeable future, are considered held-for-sale and are carried at the lower of cost or market value determined on an individual basis. These loans held for sale are included in installment loans and the outstanding balances of these loans as of June 30, 2008, and March 31, 2008, are ¥ 91,691 million and ¥ 97,317 million, respectively.

(r) Other operating assets

Other operating assets consist primarily of operating facilities (including golf courses, hotels and training facilities), which are stated at cost less accumulated depreciation, and depreciation is calculated mainly on the straight-line basis over the estimated useful lives of the assets. Accumulated depreciation was ¥18,217 million and ¥17,838 million as of June 30, 2008 and March 31, 2008, respectively.

(s) Other receivables

Other receivables include primarily payments made on behalf of lessees for property tax, maintenance fees and insurance premiums in relation to direct financing lease contracts, accounts receivables in relation to sales of assets to be leased, residential condominiums and other assets, and accrued assets of sold receivables.

(t) Inventories

Inventories consist primarily of advance and/or progress payments for development of residential condominiums (including completed residential condominiums waiting to be delivered to buyers under the contracts for sales). Advance and/or progress payments for development of residential condominiums for sale are carried at cost less any impairment losses and finished goods (including completed residential condominiums) are stated at the lower of cost or market. As of June 30, 2008, and March 31, 2008, advance and/or progress payments were ¥220,202 million and ¥210,312 million, respectively, and finished goods were ¥18,314 million and ¥22,538 million, respectively.

For the three months ended June 30, 2008, a certain subsidiary recorded ¥3,081 million of write-downs principally for advance and/or progress payments for development of residential condominiums for sale, resulting from an increase in development costs. These write-downs were recorded in costs of real estate sales and included in the Real Estate segment.

Table of Contents

(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 was ¥36,272 million and ¥35,857 million as of June 30, 2008 and March 31, 2008, respectively.

(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 and to construction of real estate under operating lease.

(w) Goodwill and other intangible assets

The Company and its subsidiaries have followed FASB Statement No. 141 (Business Combination) and FASB Statement No. 142 (Goodwill and Other Intangible Assets). FASB Statement No. 141 requires that all business combinations be accounted for using the purchase method. Accounting for business combinations using the pooling of 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.

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 are no longer amortized but tested at least annually for impairment. The Company and its subsidiaries test the goodwill either at the operating segment level or one level below the operating segments. Intangible assets with finite lives are amortized over their useful lives and tested for impairment in accordance with FASB Statement No. 144 (Accounting for the Impairment or Disposal of Long-Lived Assets).

The amount of goodwill is ¥83,330 million and ¥ 82,196 million as of June 30, 2008 and March 31, 2008, respectively.

(x) Trade notes, accounts payable and other liabilities

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

(y) Capitalization of interest costs

The company and its subsidiaries capitalized interest costs related to specific long-term development projects.

(z) Advertising

The costs of advertising are expensed as incurred.

(aa) Discontinued operations

The Company and its subsidiaries have followed FASB Statement No.144 (Accounting for the Impairment or Disposal of Long-Lived Assets). Under FASB Statement No.144, the scope of discontinued operations includes the operating results of any component of an entity with its own identifiable operations and cash flow and in which operations the Company and its subsidiaries will not have significant continuing involvement.

Table of Contents

(ab) Earnings per share

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

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

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

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

(ad) Recently adopted accounting standards

The Company and its subsidiaries adopted FASB Statement No. 157 (Fair Value Measurements) as of April 1, 2008. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Adoption of this Statement did not have a significant effect on the Company and its subsidiaries' results of operations or financial position.

For information about Fair Value Measurements, see Note 3.

The Company and its subsidiaries adopted FASB Statement No. 159 (The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115) as of April 1, 2008. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value and amends FASB Statement No. 115 (Accounting for Certain Investments in Debt and Equity Securities). Adoption of this Statement did not have a significant effect on the Company and its subsidiaries' results of operations or financial position.

3. Fair Value Measurements

The Company and its subsidiaries adopted FASB Statement No. 157 (Fair Value Measurements). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

This Statement classifies and prioritizes inputs used to valuation techniques to measure fair value into following three levels.

- Level 1 Inputs of quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Unobservable inputs for the asset or liability.

This Statement differentiates between those assets and liabilities required to be carried at fair value at every reporting period (recurring) and those assets and liabilities that are only required to be adjusted to fair value under certain circumstances (nonrecurring). The Company and its subsidiaries measure trading securities, available-for-sale securities, and derivatives at fair value on a recurring basis.

The Company and its subsidiaries adopted FSP 157-2 (Effective Date of FASB Statement No. 157) as of April 1, 2008. This Staff Position defers the effective date of FASB Statement No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. As for the disclosures for assets and liabilities measured at fair value on nonrecurring basis are omitted.

Table of Contents

The following table presents recorded amounts of major assets and liabilities measured at fair value on a recurring basis as of June 30, 2008:

June 30, 2008

	Millions of yen			
	Total carrying value in consolidated balance sheet	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trading securities	37,727	4,212	33,515	
Available-for-sale securities	925,702	102,206	370,760	452,736
Derivative Assets	12,200	1,042	11,158	
Others	7,755		7,755	
	983,384	107,460	423,188	452,736

Others mainly include in cash equivalent and other securities.

June 30, 2008

	Millions of yen			
	Total carrying value in consolidated balance sheet	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Liabilities	15,273	439	14,834	

The following table presents the reconciliation for asset measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from April 1, 2008 to June 30, 2008:

	Millions of yen Significant unobservable Inputs (Level 3) Available-for-sale securities
Balance at March 31, 2008	437,939
Total gains or losses (realized / unrealized)	689
Included in earnings	174
Included in other comprehensive income	515
Purchases, sales, and redemptions	13,533
Transfers in Level 3	575
Balance at June 30, 2008	452,736

The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date

174

Table of Contents

The following is a description of the main valuation methodologies used for instruments measured at fair value on recurring base.

Trading securities and Available-for-sales securities

If active market prices are available, fair value measurement is based upon quoted active market prices and, accordingly, these securities classified as Level 1. If active market prices are not available, fair value measurement is based upon observable inputs other than quoted prices included within Level 1 such as prices for similar assets or liabilities and these securities classified as Level 2. If market prices are not available, then fair value is estimated by using valuation models including discounted cash flow methodology. Such securities are classified as level 3, as the valuation models are based on inputs that are unobservable in the market.

Derivatives

For exchange-traded derivatives, fair value is based on quoted market prices, and accordingly, classified Level 1. For non-exchange traded derivatives, fair value is based on generic models or discounted cash flow methodology using various inputs. The measurement of the fair value of derivatives is derived from inputs that are observable in the market place which include yield curves, publicly available volatilities, and accordingly, are classified as Level 2 inputs.

4. Investment in Securities

Investment in securities at June 30, 2008 and March 31, 2008 consists of the following:

	Millions of yen	
	June 30, 2008	March 31, 2008
Trading securities	37,727	34,535
Available-for-sale securities	925,702	884,777
Other securities	225,770	202,472
Total	1,189,199	1,121,784

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

The amortized cost basis amounts, gross unrealized holding gains, gross unrealized holding losses and fair values of available-for-sale securities in each major security type at June 30, 2008 and March 31, 2008 are as follows:

June 30, 2008

	Millions of yen			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Japanese and foreign government bond securities	27,606	100	(27)	27,679
Japanese prefectural and foreign municipal bond securities	54,354	93	(662)	53,785
Corporate debt securities	261,633	654	(5,257)	257,030
Mortgage-backed and other asset-backed securities	479,316	9,926	(4,240)	485,002
Equity securities	59,007	47,304	(4,105)	102,206
	881,916	58,077	(14,291)	925,702

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March 31, 2008

	Millions of yen			Fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
Available-for-sale:				
Japanese and foreign government bond securities	26,599	167	(9)	26,757
Japanese prefectural and foreign municipal bond securities	42,341	587	(2)	42,926
Corporate debt securities	252,305	3,375	(3,162)	252,518
Mortgage-backed and other asset-backed securities	456,347	7,729	(1,876)	462,200
Equity securities	54,701	49,848	(4,173)	100,376
	832,293	61,706	(9,222)	884,777

Included in interest on loans and investment securities in the consolidated statement of income is interest income on investment securities of ¥5,657 million for the three months ended June 30, 2008.

Table of Contents**5. Investment in Affiliates**

Investment in affiliates at June 30, 2008, and March 31, 2008 consists of the following:

	Millions of yen	
	June 30, 2008	March 31, 2008
Common stock, at equity value	301,462	319,840
Loans	7,937	7,923
	309,399	327,763

Combined and condensed information relating to the affiliates accounted for by the equity method for the three months ended June 30, 2008 and the fiscal year ended March 31, 2008 are as follows (some operation data for entities reflect only the period since the Company and its subsidiaries made the investment and on the lag basis):

	Millions of yen	
	June 30, 2008	March 31, 2008
Operations:		
Total revenues	411,981	1,738,670
Income before income taxes	46,946	206,009
Net income	37,140	158,949
Financial position:		
Total assets	4,446,883	4,326,436
Total liabilities	3,421,572	3,298,243
Shareholders' equity	1,025,311	1,028,193

Table of Contents**6. Shareholders Equity**

as of June 30, 2008 and for the three months ended June 30, 2008

Type and number of outstanding shares, including treasury shares

Common stock, 92,205 thousand shares

Type and number of treasury shares

Common stock, 3,494 thousand shares

The Company acquired 1,800 thousand shares of treasury stocks for ¥29,290 million in the stock market to implement a flexible capital policy, including allocation for share swaps in future merger and acquisition transactions.

Stock acquisition rights

Liquid Yield Option Notes	convertible into 2,252,282 shares of common stock
2006 Stock acquisition rights	¥1,764 million, exercisable after June 21, 2008
2007 Stock acquisition rights	¥896 million, exercisable after July 5, 2009

Dividends

Resolution	The board of directors on May 22, 2008
Type of shares	Common stock
Total dividends paid	¥23,529 million
Dividend per share	¥260.00
Date of dividend record	March 31, 2008
Date of entry into force	May 22, 2008
Dividend resource	Retained earnings

7. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended June 30, 2008 are as follows:

	Millions of yen
	Three months
	ended
	June 30, 2008
Personnel expenses	35,513
Selling expenses	8,581
Administrative expenses	19,111
Depreciation	948
Total	64,153

8. Pension Plans

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

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

Net pension cost of the plans for the three months ended June 30, 2008 consists of the following:

	Millions of yen Three months ended June 30, 2008
Service cost	760
Interest cost	336
Expected return on plan assets	(512)
Amortization of transition obligation	
Amortization of net actuarial loss	181
Amortization of prior service credit	(302)
Plan curtailments and settlements	
Net periodic pension cost	463

Table of Contents**9. Discontinued Operations**

FASB Statement No.144 (Accounting for the Impairment or Disposal of Long-Lived Assets) requires that the Company and its subsidiaries reclassify the operations sold or to be disposed of by sale to discontinued operations, without significant continuing involvement in the operations. Under this Statement, the Company and its subsidiaries report the gains on sales and the results of these operations of the subsidiaries, the business units, and certain properties, which have been sold or to be disposed of by sale, as income from discontinued operations in the accompanying consolidated statement of income.

The Company and its subsidiaries own various real estate properties, including commercial and office buildings, for rental operations. For the three months ended June 30, the Company and its subsidiaries earned ¥4,563 million of aggregated gains on such real estate properties. In addition, the Company and its subsidiaries determined to dispose by sale properties for rental of ¥21,208 million and ¥28,048 million which are mainly included in investment in operating leases in the accompanying consolidated balance sheets at June 30, 2008 and March 31, 2008.

Discontinued operations for the three months ended June 30, 2008 consist of the following:

	Millions of yen
	Three months
	ended
	June 30, 2008
Revenues	5,031
Income from discontinued operations, net	4,656

10. Comprehensive Income

Comprehensive income for the three months ended June 30, 2008 are as follows:

	Millions of yen
	Three months
	ended
	June 30, 2008
Net income	32,359
Other comprehensive income (loss):	
Net change of unrealized gains on investment in securities	(9,679)
Net change of defined benefit pension plans	(124)
Net change of foreign currency translation adjustments	12,709
Net change of unrealized gains on derivative instruments	741
Total comprehensive income	36,006

Table of Contents**11. Per Share Data**

Reconciliation of the differences between basic and diluted earnings per share (EPS) in the three months ended June 30, 2008, and the fiscal year ended March 31, 2008 is as follows:

	Millions of yen Three months ended June 30, 2008
Income from continuing operations	29,607
Effect of dilutive securities	
Convertible bond	282
Income from continuing operations for diluted EPS computation	29,889

	Thousands of shares Three months ended June 30, 2008
Weighted- average shares	89,153
Effect of dilutive securities	
Warrants	219
Convertible bond	2,271
Treasury stock	21
Weighted-average shares for diluted EPS computation	91,664

	Yen Three months ended June 30, 2008
Earnings per share for income from continuing operations:	
Basic	332.09
Diluted	326.07

Shareholders' equity per share as of June 30, 2008, and March 31, 2008 is as follows.

	Yen June 30, 2008	March 31, 2008
Shareholders' equity per share	14,111.43	14,010.62

Table of Contents

12. 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 changes, the fair value and/or cash flow of interest sensitive assets and liabilities will fluctuate. However, such fluctuation 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 regarding the amount of notional principal, fair value, type of transaction and other factors pertaining to each counterparty.

(b) Cash flow hedges

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

(c) Fair value hedges

The Company and its subsidiaries use financial 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, denominated in foreign currency. The Company and certain overseas subsidiaries, which issued medium-term notes with fixed interest rates, use interest rate swap contracts to hedge interest rate exposure of the fair values of these medium-term notes. In cases where the medium-term notes were denominated in other than the subsidiaries' local currency, foreign currency swap agreements are used to hedge foreign exchange rate exposure.

(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 overseas subsidiaries.

(e) Trading and other derivatives

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

The following table provides notional amount, carrying amount and estimated fair value information about derivative instruments ended June 30, 2008, and the fiscal year ended March 31. 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.

Table of Contents

As of June 30, 2008

	Millions of yen		
	Notional amount	Carrying amount	Estimated fair value
Interest rate risk management:			
Interest rate swap agreements	363,540	775	775
Caps held	107	1	1
Foreign exchange risk management:			
Foreign exchange forward contracts	148,889	(106)	(106)
Futures	203	(3)	(3)
Foreign currency swap agreements	240,115	(4,343)	(4,343)
Trading activities:			
Futures	169,003	599	599
Options held	4,011	198	198
Options written	3,433	(202)	(202)
Foreign exchange forward contracts	26,672	8	8
Credit default swap	4,000		

As of March 31, 2008

Millions of yen
Notional Carrying
amount amount