

ORIX CORP  
Form 20-F  
June 28, 2018  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 20-F**

**(Mark One)**

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

**OR**

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

**For the fiscal year ended March 31, 2018**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**OR**

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

**Date of event requiring this shell company report:**

**Commission file number: 001-14856**

**ORIX KABUSHIKI KAISHA**

*(Exact name of Registrant as specified in its charter)*

**ORIX CORPORATION**

*(Translation of Registrant's name into English)*

**Japan**

*(Jurisdiction of incorporation or organization)*

**World Trade Center Building, 2-4-1 Hamamatsu-cho, Minato-ku**

**Tokyo 105-6135, Japan**

*(Address of principal executive offices)*

**Yukio Uchimura**

**World Trade Center Building, 2-4-1 Hamamatsu-cho, Minato-ku**

**Tokyo 105-6135, Japan**

**Telephone: +81-3-3435-1273**

**Facsimile: +81-3-3435-1276**

*(Name, telephone, e-mail and/or facsimile number and address of company contact person)*

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
(1) Common stock without par value (the Shares )	New York Stock Exchange*
(2) American depository shares (the ADSs ), each of which represents five shares	New York Stock Exchange

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

**None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None**

**Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.**

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As of March 31, 2018, 1,324,495,728 Shares were outstanding, including Shares that were represented by 5,380,864 ADSs.

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note Checking the box above will not relieve any Registrant required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

Indicate by check mark whether the Registrant:(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the Registrant has used to prepare the financial statements included in this filing.

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17      Item 18

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes      No

**(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)**

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes      No

\* Not for trading, but only for technical purposes in connection with the registration of the ADSs.

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**CERTAIN DEFINED TERMS, CONVENTIONS AND  
PRESENTATION OF FINANCIAL INFORMATION**

As used in this annual report, unless the context otherwise requires, the Company and ORIX refer to ORIX Corporation, and ORIX Group, Group, we, us, our and similar terms refer to ORIX Corporation and its subsidiaries.

In this annual report, subsidiary and subsidiaries refer to consolidated subsidiaries of ORIX, generally companies in which ORIX owns more than 50% of the outstanding voting stock and exercises effective control over the companies operations; and affiliate and affiliates refer to all of our affiliates accounted for by the equity method, generally companies in which ORIX has the ability to exercise significant influence over their operations by way of 20-50% ownership of the outstanding voting stock or other means.

The consolidated financial statements of ORIX have been prepared in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ). For certain entities where we hold majority voting interests but noncontrolling shareholders have substantive participating rights to decisions that occur as part of the ordinary course of the business, the equity method is applied. In addition, the consolidated financial statements also include variable interest entities ( VIEs ) of which the Company and its subsidiaries are primary beneficiaries. Unless otherwise stated or the context otherwise requires, all amounts in such financial statements are expressed in Japanese yen.

References in this annual report to ¥ or yen are to Japanese yen and references to US\$, \$ or dollars are to United States dollars.

Certain monetary amounts and percentage data included in this annual report have been subject to rounding adjustments for the convenience of the reader. Accordingly, figures shown as totals in tables may not be equal to the arithmetic sums of the figures that precede them.

The Company's fiscal year ends on March 31. The fiscal year ended March 31, 2018 is referred to throughout this annual report as fiscal 2018, and other fiscal years are referred to in a corresponding manner. References to years not specified as being fiscal years are to calendar years.

**FORWARD-LOOKING STATEMENTS**

This annual report contains statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. When included in this annual report, the words will, should, expects, intends, anticipates, estimates and similar expressions, among others, identify forward looking statements. Such statements, which include, but are not limited to, statements contained in Item 3. Key Information Risk Factors, Item 5. Operating and Financial Review and Prospects and Item 11. Quantitative and Qualitative Disclosures About Market Risk, inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those set forth in such statements. These forward-looking statements are made only as of the filing date of this annual report. The Company expressly disclaims any obligation or undertaking to release any update or revision to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

**Table of Contents****PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****SELECTED FINANCIAL DATA**

The following selected consolidated financial information has been derived from our consolidated financial statements as of each of the dates and for each of the periods indicated below except for Number of employees. This information should be read in conjunction with and is qualified in its entirety by reference to our consolidated financial statements, including the notes thereto, included in this annual report in Item 18, which have been audited by KPMG AZSA LLC.

	<b>Year ended March 31,</b>				
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>(Millions of yen)</b>				
<b>Income statement data*1*2:</b>					
Total revenues	¥ 1,375,292	¥ 2,174,283	¥ 2,369,202	¥ 2,678,659	¥ 2,862,771
Total expenses	1,172,244	1,917,454	2,081,461	2,349,435	2,526,576
Operating income	203,048	256,829	287,741	329,224	336,195
Equity in net income of affiliates	18,368	30,531	45,694	26,520	50,103
Gains on sales of subsidiaries and affiliates and liquidation losses, net	64,923	20,575	57,867	63,419	49,203
Bargain purchase gain	0	36,082	0	5,802	0
Income before income taxes and discontinued operations	286,339	344,017	391,302	424,965	435,501
Income from continuing operations	187,786	254,960	270,990	280,926	321,589
Net income attributable to the noncontrolling interests	3,815	15,339	10,002	7,255	8,002
Net income attributable to the redeemable noncontrolling interests	4,108	4,970	819	432	452
Net income attributable to ORIX Corporation shareholders	187,364	234,948	260,169	273,239	313,135

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	As of March 31,				
	2014	2015	2016	2017	2018
	(Millions of yen, except number of shares)				
<b>Balance sheet data*2:</b>					
Investment in Direct Financing Leases*3	¥ 1,094,073	¥ 1,216,454	¥ 1,190,136	¥ 1,204,024	¥ 1,194,888
Installment Loans*3	2,315,555	2,478,054	2,592,233	2,815,706	2,823,769
Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses	(84,796)	(72,326)	(60,071)	(59,227)	(54,672)
Investment in Operating Leases	1,379,741	1,296,220	1,349,199	1,313,164	1,344,926
Investment in Securities	1,214,452	2,846,257	2,344,792	2,026,512	1,729,455
Property under Facility Operations	295,863	278,100	327,016	398,936	434,786
Others*4	2,848,629	3,397,115	3,249,613	3,532,780	3,952,830
<b>Total Assets*4</b>	<b>¥ 9,063,517</b>	<b>¥ 11,439,874</b>	<b>¥ 10,992,918</b>	<b>¥ 11,231,895</b>	<b>¥ 11,425,982</b>
Short-term Debt, Long-term Debt and Deposits*4	¥ 5,363,968	¥ 5,701,356	¥ 5,685,014	¥ 5,753,059	¥ 5,890,720
Policy Liabilities and Policy Account Balances	454,436	2,073,650	1,668,636	1,564,758	1,511,246
Common Stock	219,546	220,056	220,469	220,524	220,961
Additional Paid-in Capital	255,449	255,595	257,629	268,138	267,291
ORIX Corporation Shareholders Equity	1,919,346	2,152,198	2,310,431	2,507,698	2,682,424
Number of Issued Shares	1,322,777,628	1,323,644,528	1,324,058,828	1,324,107,328	1,324,495,728
Number of Outstanding Shares*5	1,309,444,294	1,308,642,971	1,309,514,020	1,302,587,061	1,280,000,872

**As of and for the Year Ended March 31,**  
**2014 2015 2016 2017 2018**  
**(Yen and dollars, except ratios and number of employees)**

<b>Key ratios (%)*6:</b>					
Return on ORIX Corporation shareholders equity ( ROE )	10.5	11.5	11.7	11.3	12.1



Return on assets ( ROA )	2.14	2.29	2.32	2.46	2.76
ORIX Corporation shareholders equity ratio	21.2	18.8	21.0	22.3	23.5
Allowance/investment in direct financing leases and installment loans	2.5	2.0	1.6	1.5	1.4

**Per share data and employees:**

ORIX Corporation shareholders equity per share <sup>*2</sup>	¥ 1,465.77	¥ 1,644.60	¥ 1,764.34	¥ 1,925.17	¥ 2,095.64
Basic earnings per share for income attributable to ORIX Corporation shareholders from continuing operations <sup>*8</sup>	142.00	179.24	198.73	208.88	244.40
Basic earnings per share for net income attributable to ORIX Corporation shareholders	147.75	179.47	198.73	208.88	244.40
Diluted earnings per share for net income attributable to ORIX Corporation shareholders	143.20	179.21	198.52	208.68	244.15
Dividends applicable to fiscal year per share	23.00	36.00	45.75	52.25	66.00
Dividends applicable to fiscal year per share <sup>*9</sup>	\$ 0.22	\$ 0.29	\$ 0.40	\$ 0.48	\$ 0.60
Number of employees	25,977	31,035	33,333	34,835	31,890

\*1 Certain line items presented in the consolidated statements of income have been reclassified starting from fiscal 2015. The amounts that had been previously reported have been reclassified for this change.

\*2 Prior-year amounts have been adjusted retrospectively to eliminate a lag period that previously existed between DAIKYO INCORPORATED ( DAIKYO ) and ORIX in fiscal 2015.

\*3 The sum of assets considered 90 days or more past due and loans individually evaluated for impairment amounted to ¥155,860 million, ¥123,042 million, ¥94,327 million, ¥80,347 million and ¥71,974 million as of March 31, 2014, 2015, 2016, 2017 and 2018, respectively. These sums included: (i) investment in direct financing leases considered 90 days or more past due of ¥13,887 million, ¥15,373 million, ¥12,556 million,

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¥11,600 million and ¥12,084 million as of March 31, 2014, 2015, 2016, 2017 and 2018, respectively, (ii) installment loans (excluding loans individually evaluated for impairment) considered 90 days or more past due of ¥6,149 million, ¥6,635 million, ¥8,178 million, ¥9,722 million and ¥12,748 million as of March 31, 2014, 2015, 2016, 2017 and 2018, respectively, and (iii) installment loans individually evaluated for impairment of ¥135,824 million, ¥101,034 million, ¥73,593 million, ¥59,025 million and ¥47,142 million as of March 31, 2014, 2015, 2016, 2017, and 2018, respectively. See Item 5. Operating and Financial Review and Prospects Results of Operations Year Ended March 31, 2018 Compared to Year Ended March 31, 2017 Details of Operating Results Revenues, New Business Volumes and Investments Asset quality.

- \*4 Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2015-03 ( Simplifying the Presentation of Debt Issuance Costs ASC 835-30 ( Interest Imputation of Interest )) in fiscal 2017.
- \*5 The Company's shares held through the Board Incentive Plan Trust, which was established in July 2014 to provide shares at the time of retirement as compensation, are included in the number of treasury stock shares and excluded from the number of outstanding shares. The trust held 2,153,800 shares, 1,696,217 shares, 2,126,076 shares and 1,651,443 shares as of March 31, 2015, 2016, 2017 and 2018, respectively.
- \*6 Return on ORIX Corporation shareholders' equity is the ratio of net income attributable to ORIX Corporation shareholders for the period to average ORIX Corporation shareholders' equity based on fiscal year beginning and ending balances for the period. Return on assets is the ratio of net income attributable to ORIX Corporation shareholders for the period to average total assets based on fiscal year beginning and ending balances for the period. ORIX Corporation shareholders' equity ratio is the ratio as of the period end of ORIX Corporation shareholders' equity to total assets. Allowance/investment in direct financing leases and installment loans is the ratio as of the period end of the allowance for doubtful receivables on direct financing leases and probable loan losses to the sum of investment in direct financing leases and installment loans.
- \*7 ORIX Corporation shareholders' equity per share is the amount derived by dividing ORIX Corporation shareholders' equity by the number of outstanding shares.
- \*8 Basic earnings per share for income attributable to ORIX Corporation shareholders from continuing operations is the amount derived by dividing income attributable to ORIX Corporation shareholders from continuing operations by the weighted-average number of shares outstanding based on month-end balances during the fiscal year. The term basic earnings per share for income attributable to ORIX Corporation shareholders from continuing operations as used throughout this annual report has the meaning described above.
- \*9 The U.S. dollar amounts represent translations of the Japanese yen amounts using noon buying rates for Japanese yen per \$1.00 in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York in effect on the respective dividend payment dates.

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The following table provides the noon buying rates for Japanese yen, expressed in Japanese yen per \$1.00 in New York City for cable transfers in foreign currencies. As of June 22, 2018, the noon buying rate for Japanese yen was ¥109.98 = \$1.00. No representation is made that the yen or dollar amounts referred to herein could have been or could be converted into dollars or yen, as the case may be, at any particular rate or at all.

	Year Ended March 31,				
	2014	2015	2016	2017	2018
(Yen per dollar)					
<b>Yen per dollar exchange rates:</b>					
High	¥ 105.25	¥ 121.50	¥ 125.58	¥ 118.32	¥ 114.25
Low	92.96	101.26	111.30	100.07	104.83
Average of the last days of the months	100.46	110.78	120.13	108.31	110.70
At period-end	102.98	119.96	112.42	111.41	106.20

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

	High	Low
<b>2017</b>		
December	¥ 113.62	¥ 111.88
<b>2018</b>		
January	¥ 113.18	¥ 108.38
February	110.40	106.10
March	106.91	104.83
April	109.33	105.99
May	111.08	108.62

**RISK FACTORS**

Investing in our securities involves risks. You should carefully consider the risks described below as well as all the other information in this annual report, including, but not limited to, our consolidated financial statements and related notes and Item 11. Quantitative and Qualitative Disclosures about Market Risk. Our business activities, financial condition and results of operations and the trading prices of our securities could be adversely affected by any of the factors discussed below or other factors. Even if we do not incur direct pecuniary loss as a result of these risks, our reputation may be adversely affected. This annual report also contains forward-looking statements that involve uncertainties. Our actual results could differ from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, the risks faced by us described below and elsewhere in this annual report. See Forward-Looking Statements. Forward-looking statements in this section are made only as of the filing date of this annual report.

**1. Risks Related to our External Environment**

***(1) Global economic weakness and instability could adversely affect our business activities, financial condition and results of operations***

Our business is affected by general economic conditions and financial conditions in Japan and in foreign countries.

The U.S. economy has remained steady with improvements in employment and income environments over the past eight years. Stable growth has also been observed in other regions. Although interest rates remain low

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worldwide, rate increases in the U.S. and the scaling back of quantitative easing policies in Europe are expected. In addition, there are political and geopolitical tensions in certain regions that need to be monitored carefully.

The Japanese economy, as a whole, is continuing to experience moderate recovery.

Despite our attempts to minimize the adverse effect of an unstable economic climate on our overall business through, for example, improving our risk management procedures, instability in the global economy could adversely affect our business activities, financial condition and results of operations.

***(2) We may lose market share or suffer reduced profitability as a result of competition based on pricing and other terms***

We compete on the basis of pricing, transaction structure, service quality and other terms. It is possible that our competitors may seek to compete aggressively on the basis of pricing and other terms through their advantageous funding costs or without regard to their profitability. As a result of such aggressive competition by our competitors, our market share or our profitability may decline.

***(3) Negative rumors could affect our business activities, financial condition, results of operations and share price***

Our business is built upon the confidence of our customers and market participants. Whether based on facts or not, negative rumors about our activities, our industries or the parties with whom we do business could harm our reputation and diminish confidence in our business. In such an event, we may lose customers or business opportunities, which could adversely affect our business activities, financial condition and results of operations, as well as our share price.

***(4) Our business may be adversely affected by economic fluctuations and political disturbances***

We conduct business operations in Japan as well as in the United States, other areas of Asia, Oceania, the Middle East and Europe. Recessions, fluctuations or shifts in commodity market prices and consumer demand, political, social or economic instability or acts of violence or war in these and other regions could adversely affect our business activities, financial condition and results of operations.

***(5) Our business activities, financial condition and results of operations may be adversely affected by unpredictable events***

Our business activities, financial condition and results of operations may be adversely affected by unpredictable events or any continuing effects caused by such events. Unpredictable events include man-made events, such as accidents, war, terrorism and insurgency, and natural events, such as earthquakes, storms, tsunamis, fires and outbreaks of infectious diseases. If any such event occurs, it may, among other things, cause unexpectedly large market price movements or unanticipated deterioration of economic conditions in a country or region, or cause major injuries to our personnel or damage to our facilities, equipment and other property, which could adversely affect our business activities, financial condition and results of operations.

***(6) Dispositions of Shares may adversely affect market prices for our Shares***

Between June 28, 2017, and June 28, 2018, one of our shareholders filed a large shareholder report pursuant to the Financial Instruments and Exchange Act ( FIEA ) indicating, at the time of filing, beneficial ownership, as that term is used in the FIEA, of more than five percent of the total number of our outstanding Shares by each relevant reporting

shareholder. This or other of our shareholders may, for strategic, investment or other reasons, decide to reduce their shareholdings in ORIX. Dispositions of Shares, particularly dispositions of large numbers of Shares by major shareholders, may adversely affect market prices for our Shares. For information on major shareholders, see Item 7. Major Shareholders and Related Party Transactions.

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If foreign investors reduce their investment in Japanese stocks due to changes in global or domestic economic or political conditions, market prices for our Shares could be adversely affected because a large percentage of our Shares are owned by investors outside of Japan.

### **2. Credit Risk**

#### ***Our credit-related costs might increase***

We maintain an allowance for doubtful receivables on direct financing leases and probable loan losses. However, we cannot be sure that the allowance will be adequate to cover future credit losses. This allowance may be inadequate due to unexpected adverse changes in the Japanese and overseas economies in which we operate, or deterioration in the conditions of specific customers, industries or markets. While we constantly strive to improve our portfolio management, we may be required to make additional provisions in the future depending on economic trends and other factors.

Furthermore, if adverse economic or market conditions affect the value of underlying collateral, secondhand equipment, or guarantees, our credit-related costs other than the allowance might increase. If any such event occurs, our business activities, financial condition and results of operations could be adversely affected.

### **3. Business Risk**

#### ***(1) We are exposed to risks from our diverse and expanding range of products and services, acquisitions of companies and assets, and entry into joint ventures and alliances***

We are engaged in a broad range of businesses in Japan and overseas and continue to expand such range, including through acquisitions of companies and businesses. The breadth of our business and continued expansion may expose us to new and complex risks that we may be unable to fully control or foresee, and, as a result, we may incur unexpected and potentially substantial costs or losses. In addition, we may not achieve targeted results if our business or business opportunities do not develop as expected or if competitive pressures undermine profitability. Furthermore, as part of our business expansion, we may acquire companies or businesses. If the results of operations of an acquired company or business are lower than what we expected at the time we made such acquisition, we could be required to make large write-downs of goodwill or other assets.

We have a wide range of investments in business operations, including operations that are very different from our financial services business. If we fail to manage our investee companies effectively, we may experience financial losses as well as losses of future business opportunities. In addition, we may not be able to sell or otherwise dispose of investments at times or prices we initially expected or at all. We may also need to provide financial support, including credit support or equity investments, to some investee companies if their financial condition deteriorates.

From time to time we also enter into joint ventures and other alliances, and the success of these alliances is often dependent upon the operational capabilities, the financial stability and the legal environment of our counterparties. If an alliance suffers a decline in its financial condition or is subject to operational instability because of a change in applicable laws or regulations, we may be required to pay in additional capital, reduce our investment at a loss, or terminate the alliance.

If any such events occur, our business activities, financial condition and results of operations may be adversely affected.

*(2) We are exposed to risks related to asset value volatility*

In the management of our businesses, we hold various classes of assets and investments, including ships, aircraft, real estate, equipment and other assets in Japan and overseas. The market values of our assets and investments are volatile and may decline substantially in the future.



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Asset valuation losses are recorded based on the fair market values at the time when revaluation is conducted in accordance with applicable accounting principles. However, losses from the sale of these assets, including as a result of a sudden need for liquidity, may exceed the amount of recorded valuation losses.

We estimate the residual value for certain operating leases at the time of contract. Our estimates of the residual value of equipment are based on current market values of used equipment and assumptions about when and to what extent the equipment will become obsolete; however, we may need to recognize additional valuation losses if our estimates differ from actual trends in equipment valuation and the secondhand market, and we may incur losses if we are unable to collect such estimated residual amounts.

If any event described above occurs, our business activities, financial condition and results of operations may be adversely affected.

### ***(3) Risks related to our other businesses***

We operate a wide range of businesses in Japan and overseas, including financial services businesses.

Entry into new businesses, and the results of operations following such entry, are accompanied by various uncertainties, and if any unanticipated risk does occur, it may adversely affect our business activities, financial condition and results of operations.

## **4. Market Risk**

### ***(1) Changes in market interest rates and currency exchange rates could adversely affect our assets and our business activities, financial condition and results of operations***

Our business activities are subject to risks relating to changes in market interest rates and currency exchange rates in Japan and overseas. Although we conduct asset-liability management ( ALM ), changes in the yield curve and currency exchange rates could adversely affect our results of operations.

When fund procurement costs increase due to actual or perceived increases in market interest rates, financing lease terms and loan interest rates for new transactions may diverge from the trend in market interest rates.

Changes in market interest rates could have an adverse effect on the credit quality of our assets and our asset structure. For example, with respect to floating-rate loan assets, if market interest rates increase, the repayment burdens of our customers may also increase, which could adversely affect the financial condition of such customers and their ability to repay their obligations to us. Alternatively, a decline in interest rates could result in increased prepayments of loans and a decrease in our assets.

Though we enter into derivative investments to hedge our market interest and currency risks, we may not be able to perfectly hedge against all risks arising from our business operations in foreign currencies and overseas investments. As a result, a significant change in interest rates or currency exchange rates could have an adverse impact on our business activities, financial condition and results of operations.

### ***(2) Our use of derivatives may adversely affect our business activities, financial condition and results of operations***

We may use derivative instruments to reduce fluctuations in the value of our investments and to hedge against interest rate and currency risks. However, it is possible that this risk management strategy may not be fully effective in all

circumstances due to our failure to appraise the value of assets being hedged or execute such derivative instruments properly or at all, or our failure to achieve the intended results of such hedging due to the

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unavailability of offsetting or roll-over transactions in the event of sudden turbulence in the market or otherwise. Furthermore, our derivatives counterparties could fail to honor the terms of their contracts with us. Our existing derivative contracts and new derivative transactions may also be adversely affected in case our credit ratings are downgraded.

In such instances, our business activities, financial condition and results of operations could be adversely affected.

### ***(3) Fluctuations in market prices of stocks and bonds may adversely affect our business activities, financial condition and results of operations***

We hold investments in shares of private and public company stock, including shares of our equity method affiliates, and corporate and government bonds in Japan and overseas. The market values of our investment assets are volatile and may fluctuate substantially in the future. A significant decline in the value of our investment assets could adversely affect our business activities, financial condition and results of operations.

## **5. Liquidity Risk (Risk Relating to Fund Procurement)**

### ***Our access to liquidity and capital may be restricted by economic conditions, instability in the financial markets or changes in our credit ratings***

Our primary sources of financing include: borrowings from banks and other institutional lenders, funding from capital markets (such as through issuances of bonds, medium-term notes or commercial paper ( CP ) and securitization of leases, loans receivables and other assets) and deposits. Such sources include a significant amount of short-term debt, such as CP and other short-term borrowings from various institutional lenders and the portion of our long-term debt maturing in the current fiscal year. Some of our committed credit lines require us to comply with financial covenants.

Adverse economic conditions or financial market instability, among other things, may adversely affect our ability to raise new funds or to renew existing funding sources, and may subject us to increased funding costs or credit market volatility. If our access to liquidity is restricted, or if we are unable to obtain our required funding at acceptable costs, our business activities, financial condition and results of operations may be significantly and adversely affected.

We obtain credit ratings from ratings agencies. Downgrades of our credit ratings could result in increases in our interest expenses and could have an adverse effect on our fund-raising ability by increasing costs of issuing CP and corporate debt securities, increasing our bank borrowing costs, reducing the amount of bank credit available to us or decreasing the attractiveness of our equity securities to investors. As a result, our business activities, financial condition and results of operations may be significantly and adversely affected.

## **6. Compliance Risk**

### ***A failure to maintain adequate internal controls to comply with regulations may harm our reputation and adversely affect our business activities, financial condition and results of operations***

Our efforts to implement and maintain thorough internal controls for compliance and legal risk management, as well as compliance education programs for our staff, and to prevent violations of applicable laws, regulations and internal rules may not be fully effective in preventing all violations. In addition, we engage in a wide range of businesses, and our expansion into new businesses through acquisitions may cause our current internal controls to cease to function adequately. If we are unable to implement and maintain robust internal controls to prevent any such violations, we may be subject to sanctions or penalties, which could apply to our officers or employees. Such events could adversely

affect our business activities, financial condition, results of operations and reputation.

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**Table of Contents****7. Legal Risk*****(1) We are subject to various laws and regulations in Japan and overseas which may restrict our business activities, subject us to legal liability or otherwise put us at a disadvantage***

Our businesses and employees in Japan are subject to laws, as well as regulatory oversight by government authorities who implement those laws, relating to the various sectors in which we operate. These include laws and regulations applicable to specific industries, such as the Moneylending Business Act, the Installment Sales Act, the Insurance Business Act, the Banking Act, the Trust Business Act, the Building Lots and Buildings Transaction Business Act and the Building Standards Act, as well as laws applicable to our business activities, such as the Companies Act, the Financial Instruments and Exchange Act, the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade and the Act on the Protection of Personal Information.

Our businesses outside of Japan are also subject to the laws and regulations of the jurisdictions in which they operate and are subject to oversight by the regulatory authorities of those jurisdictions. For example, in addition to being subject to U.S. securities laws, we are also subject to the USA PATRIOT Act, which prohibits us from entering into any transactions with countries listed as state sponsors of terrorism, and the U.S. Foreign Corrupt Practices Act, which prohibits us from offering bribes to foreign public servants.

In addition, certain of our businesses are subject to industry-specific laws and regulations in Japan and overseas, including requirements to obtain appropriate licenses and permits to operate. A total or partial suspension of operations, whether due to an actual or alleged violation of applicable law or regulation, failure to obtain or maintain necessary licenses or permits or otherwise, may adversely affect our business activities, financial condition and results of operations.

Regardless of whether we have violated any laws, if we become the subject of a governmental investigation, litigation or other proceeding in connection with our businesses, our business activities, financial condition and results of operations may be adversely affected.

***(2) Enactment of, or changes in, laws, regulations and accounting standards may affect our business activities, financial condition and results of operations***

Enactment of, or changes in, laws and regulations may adversely affect the way that we conduct our business and the products or services that we may offer, as well as our customers, borrowers, invested companies and funding sources. Such enactment or changes may increase our compliance costs. If accounting standards are changed, even if such changes do not directly affect our profitability or financial soundness, industries related to our businesses, our clients or the financial market may be negatively affected. As a result of such enactments or changes, our business activities, financial condition and results of operations could be adversely affected.

**8. Information Asset Risk*****(1) Risks relating to loss, alteration, falsification or leakage of information***

We maintain various information assets such as customer information including information on individuals, accounting information and personnel information. We have implemented internal rules and training programs to properly manage such information assets. We also implement technical measures such as maintaining various network security to protect against or mitigate cyber-attacks. However, in spite of such efforts, our measures may not be always effective and it is possible that our information assets may be lost, damaged or leaked.

In such event, we may be penalized for violating applicable laws and regulations and may be sued for damages. In addition, our operations, financial standing and performance may be adversely affected due to, but not limited to, loss of customer and market confidence in us and deterioration of our reputation.

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### ***(2) Failures in our computer and other information systems could interfere with our operations and damage our business activities, financial condition and results of operations***

We use information systems for financial transactions, personal information management, business monitoring and processing and as part of our business decision-making and risk management activities. Some of these information systems may be outsourced.

System shutdowns, malfunctions or failures, the mishandling of data or fraudulent acts by employees, vendors or other third parties, attack by a computer virus, hacking, unauthorized access or other types of cyber-terrorism, or a large-scale natural disaster, could have adverse effects on our operations, by causing, for example, delays in the receipt and payment of funds, the leakage, loss or destruction of confidential or personal information of our customers or employees, the generation of errors in information used by our management for business decision-making and risk management evaluation and planning, the suspension of certain products or services we provide to our customers or other interruptions of our business activities. In such event, our liquidity or the liquidity of customers who rely on us for financing or payment could be adversely affected. We may also incur substantial costs to recover our business functionality or be penalized for violating applicable laws and regulations and may be sued for damages.

As a result of the above, our operations, financial standing and performance may be adversely affected.

## **9. Operational Risk**

### ***(1) We may not be able to hire or retain qualified personnel***

Our businesses require a considerable investment in human resources and the retention of qualified personnel in order to successfully compete in markets in Japan and overseas. If we cannot develop, hire or retain the necessary qualified personnel, our business activities, financial condition and results of operations may be adversely affected.

### ***(2) If our internal control over financial reporting is insufficient, our share price, reputation and business activities may be adversely affected***

We have established and assessed our internal control over financial reporting in a manner intended to ensure compliance with the requirements of various laws and regulations. However, in future periods we or our independent registered public accounting firm may identify material weaknesses in our internal control over financial reporting, and such finding may cause us and our accountants to disclose that our internal control over financial reporting are ineffective, which could cause a loss of investor confidence in the reliability of our financial statements and cause our share price to fall. As a result, our business activities, financial condition and results of operations may be adversely affected.

### ***(3) Our risk management may not be effective***

We continuously seek to improve our risk management function. However, due to the rapid expansion of our business or significant changes in the business environment, our risk management may not be effective. As a result, our business activities, financial condition and results of operations may be adversely affected.

### ***(4) Other operational risks***

Our business entails many types of operational risks. Examples include inappropriate sales practices; inadequate handling of client and customer complaints; inadequate internal communication of necessary information; misconduct

of officers, employees, agents, franchisees, trading associates, vendors or other third parties; errors in the settlement of accounts and conflicts with employees concerning labor and workplace management.



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When we offer new products or services, we must ensure that we have the capacity to properly undertake and perform such operations. If we are unable to do so successfully, we may lose the confidence of the market and our customers which may cause us to suffer decreased profitability or force us to withdraw from such operations.

Our management attempts to manage operational risk and maintain it at a level that we believe is appropriate. However, operational risk is part of the business environment in which we operate, and despite our control measures, our business activities, financial condition and results of operations may be adversely affected at any time due to this risk.

**10. Risks Related to Holding or Trading our Shares and ADRs*****(1) Rights of shareholders under Japanese law may be different from those under the laws of other jurisdictions***

Our Articles of Incorporation, the regulations of our board of directors and the Companies Act govern our corporate affairs. Legal principles relating to matters such as the validity of corporate procedures, directors' and officers' fiduciary duties and shareholders' rights are different from those that would apply if we were incorporated elsewhere. Shareholders' rights under Japanese law are different in some respects from shareholders' rights under the laws of jurisdictions within the United States and other countries. You may have more difficulty in asserting your rights as a shareholder than you would as a shareholder of a corporation organized in a jurisdiction outside Japan. For a detailed discussion of the relevant provisions of the Companies Act and our Articles of Incorporation, see Item 10. Additional Information Memorandum and Articles of Incorporation.

***(2) It may not be possible for investors to affect service of process within the United States upon ORIX or ORIX's directors or executive officers, or to enforce against ORIX or those persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States***

ORIX is a joint stock corporation formed in Japan. Most or all of ORIX's directors and executive officers are residents of countries other than the United States. Although some of ORIX's subsidiaries have substantial assets in the United States, substantially all of ORIX's assets and the assets of ORIX's directors and executive officers are located outside the United States. As a result, it may not be possible for investors to affect service of process within the United States upon ORIX or ORIX's directors and executive officers or to enforce against ORIX or those persons, in U.S. courts, judgments of U.S. courts predicated upon the civil liability provisions of U.S. securities laws. ORIX has been advised by its Japanese counsel that there is doubt, in original actions or in actions to enforce judgments of U.S. courts, as to the enforceability in Japan of civil liabilities based solely on U.S. securities laws. A Japanese court may refuse to allow an original action based on U.S. securities laws.

The United States and Japan do not currently have a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil or commercial matters. Therefore, if you obtain a civil judgment by a U.S. court, you will not necessarily be able to enforce such judgment directly in Japan.

***(3) We may be a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. investors***

We believe that we may have been a passive foreign investment company (a PFIC) under the U.S. Internal Revenue Code of 1986, as amended, for the year to which this report relates because of the composition of our assets and the nature of our income. In addition, we may be a PFIC in the foreseeable future. Assuming this is the case, U.S. investors in our Shares or ADSs will be subject to special rules of taxation in respect of certain dividends or gains on such Shares or ADSs, including the treatment of gains realized on the disposition of, and certain dividends received

on, the Shares or ADSs as ordinary income earned pro rata over a U.S. investor's

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holding period for such Shares or ADSs, taxed at the maximum rate applicable during the years in which such income is treated as earned, with the resulting tax liability subject to interest charges for a deemed deferral benefit. In addition, in the case of any dividends that are not subject to the foregoing rule, the favorable rates of tax applicable to certain dividends received by certain non-corporate U.S. investors would not be available. See Item 10. Additional Information Taxation United States Taxation. Investors are urged to consult their own tax advisors regarding all aspects of the income tax consequences of investing in our Shares or ADSs.

***(4) If you hold fewer than 100 Shares, you will not have all the rights of shareholders with 100 or more Shares***

One unit of our Shares is comprised of one hundred Shares. Each unit of the Shares has one vote. A holder who owns Shares other than in multiples of one hundred will own less than a whole unit (i.e., for the portion constituting of fewer than one hundred Shares.) The Companies Act imposes significant restrictions on the rights of holders of shares constituting less than a whole unit, which include restrictions on the right to vote. Under the unit share system, a holder of Shares constituting less than a unit has the right to require ORIX to purchase its Shares and the right to require ORIX to sell it additional Shares to create a whole unit. However, a holder of ADRs is not permitted to withdraw underlying Shares representing less than one unit, which is equivalent to 20 ADSs, and, as a practical matter, is unable to require ORIX to purchase those underlying Shares. The unit share system, however, does not affect the transferability of ADSs, which may be transferred in lots of any number of whole ADSs.

***(5) Foreign exchange fluctuations may affect the value of our securities and dividends***

Market prices for our ADSs may decline if the value of the yen declines against the dollar. In addition, the dollar amount of cash dividends or other cash payments made to holders of ADSs will decline if the value of the yen declines against the dollar.

***(6) A holder of ADRs has fewer rights than a shareholder and must act through the depositary to exercise those rights***

The rights of shareholders under Japanese law to take various actions, including voting shares, receiving dividends and distributions, bringing derivative actions, examining a company's accounting books and records and exercising dissenters' rights, are available only to holders of record on a company's register of shareholders. The Shares represented by our ADSs are registered in the name of a nominee of the depositary, through its custodian agent. Only the depositary is able to exercise those rights in connection with the deposited Shares. The depositary will make efforts to vote the Shares represented by our ADSs as instructed by the holders of the ADRs representing such ADSs and will pay to those holders the dividends and distributions collected from us. However, a holder of ADRs will not be able to directly bring a derivative action, examine our accounting books and exercise dissenters' rights through the depositary unless the depositary specifically undertakes to exercise those rights and is indemnified to its satisfaction by the holder for doing so.

**Item 4. Information on the Company****GENERAL**

ORIX is a joint stock corporation (*kabushiki kaisha*) formed under Japanese law. Our principal place of business is at World Trade Center Building, 2-4-1 Hamamatsu-cho, Minato-ku, Tokyo 105-6135, Japan, and our phone number is: +81 3 3435 3000. Our general contact URL is [https://ssl.orix-form.jp/ir/inquiry\\_e/](https://ssl.orix-form.jp/ir/inquiry_e/) and our corporate website URL is: <https://www.orix.co.jp/grp/en>. The information on our website is not incorporated by reference into this annual report. ORIX USA Corporation (hereinafter, ORIX USA, one of the Company's subsidiaries, has changed its name to ORIX

Corporation USA on June 1, 2018) is ORIX's agent in the United States, and its principal place of business is at 1717 Main Street, Suite 1100, Dallas, Texas 75201, USA.

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**CORPORATE HISTORY**

ORIX was established in April, 1964 in Osaka, Japan as Orient Leasing Co., Ltd. by three trading companies and five banks that included Nichimen Corporation, Nissho Corporation and Iwai Corporation (presently Sojitz Corporation), the Sanwa Bank (presently The Bank of Tokyo-Mitsubishi UFJ, Ltd.), Toyo Trust & Banking (presently Mitsubishi UFJ Trust and Banking Corporation), the Industrial Bank of Japan and Nippon Kangyo Bank (presently Mizuho Bank, Ltd.), and the Bank of Kobe (presently Sumitomo Mitsui Banking Corporation).

Our initial development occurred during the period of sustained economic growth in Japan during the 1960s and the early 1970s. We capitalized on the growing demand in this period by expanding our portfolio of leasing assets.

During this time, our marketing strategy shifted from a focus on using the established networks of the trading companies and other initial shareholders to one that concentrated on independent marketing as the number of our branches expanded. In April 1970, we listed our Shares on the second section of the Osaka Securities Exchange. Since February 1973, our Shares have been listed on the first sections of the Tokyo Stock Exchange and the Osaka Securities Exchange (which was integrated into Tokyo Stock Exchange in 2013). ORIX was also listed on the first section of the Nagoya Stock Exchange from February 1973 to October 2004.

ORIX set up a number of specialized leasing companies to tap new market potential, starting with the establishment of Orient Auto Leasing Corporation (presently ORIX Auto Corporation) in 1973 and Orient Instrument Rentals Corporation (presently ORIX Rentec Corporation), Japan's first electric measuring equipment rental company, in 1976. With the establishment of the credit company Family Consumer Credit Corporation (presently ORIX Credit Corporation, concentrating on card loans) in 1979, ORIX began to move into the retail market by offering financing services to individuals.

It was also during this time that ORIX began expanding overseas, commencing with the establishment of its first overseas office in Hong Kong in 1971, followed by Singapore (1972), Malaysia (1973), Indonesia (1975), the Philippines (1977) and Thailand (1978).

In the 1980s and early 1990s, ORIX established offices in the United States (1981), Australia (1986), Pakistan (1986) and Taiwan (1991). The Japanese company Budget Rent-a-Car (presently ORIX Auto Corporation) was also established in 1985.

In 1989, we introduced a corporate identity program and changed our name to ORIX Corporation from Orient Leasing Co., Ltd. to reflect our increasingly international profile and diversification into financial services other than leasing.

In 1991, ORIX established ORIX Aviation Systems Limited in Ireland. In the same year, ORIX established ORIX Omaha Life Insurance Corporation (presently ORIX Life Insurance Corporation) and entered the life insurance business. In 1998, ORIX purchased Yamaichi Trust & Bank, Ltd. (presently ORIX Bank Corporation). In 1998, ORIX listed on the New York Stock Exchange (Ticker Symbol: IX) and, through registration with the SEC, has worked to further strengthen its corporate governance regulations. ORIX Real Estate Corporation was established in 1999 to concentrate on condominium development that was first begun in 1993 as well as develop office buildings in pursuit of improved real estate expertise. In 1999, we established ORIX Asset Management and Loan Services Corporation.

Since 2000, we have actively expanded our automobile-related operations by acquiring companies and assets. We combined seven automobile-related companies into ORIX Auto Corporation in 2005.

We have also continued our overseas expansion. In China, we established a rental company in Tianjin in 2004 and in 2005 established a leasing company in Shanghai. In 2009, we established a Chinese Headquarters in Dalian. We also set up local subsidiaries in Saudi Arabia (2001), and the United Arab Emirates (2002).

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In 2006, we entered the investment banking field in the United States with the acquisition of Houlihan Lokey, Inc. ( Houlihan Lokey ) (whose shares we partially sold through our wholly-owned subsidiary ORIX USA in August 2015). In 2010, we acquired RED Capital Group, a U.S.-based company that provides financing for multi-family, senior living and healthcare-related real estate development projects in the United States. In 2010, we also acquired Mariner Investment Group LLC, a leading independent SEC-registered hedge fund manager.

We managed ORIX Credit Corporation ( ORIX Credit ) over a continuous three-year period jointly with Sumitomo Mitsui Banking Corporation pursuant to an alliance established in July 2009. In June 2012, ORIX purchased all the shares of ORIX Credit, making ORIX Credit a wholly-owned subsidiary of ORIX.

In July 2013, ORIX acquired Robeco Groep N.V. (presently ORIX Corporation Europe N.V.), a holding company of global asset management companies based in the Netherlands, to pursue a new business model by combining finance with related services. In October 2016, ORIX purchased all the shares of Robeco, making Robeco a wholly-owned subsidiary of ORIX.

In July 2014, we acquired Hartford Life Insurance K.K. ( HLIKK ) (presently ORIX Life Insurance Corporation). In December 2014, we acquired Yayoi Co., Ltd. ( Yayoi ), a software service provider targeting small businesses.

In December 2015, ORIX and VINCI Airports S.A.S., an airport concession holder and operator based in France, established Kansai Airports to operate and manage Kansai International Airport and Osaka International Airport.

## **STRATEGY**

### **Operating Environment**

The U.S. economy has remained steady with improvements in employment and income environments. Stable growth has also been observed in other regions. Although interest rates remain low worldwide, rate increases in the U.S. and the scaling back of quantitative easing policies in Europe are expected. The market has become more conscious about increasing market volatility. In addition, there are political and geopolitical tensions in certain regions that need to be monitored carefully.

The Japanese economy, as a whole, is continuing to experience moderate recovery.

### **Target Performance Indicators FY2019-2021**

In its pursuit of sustainable growth, ORIX Group uses the following performance indicators: Net income attributable to ORIX Corporation shareholders to indicate profitability, ROE to indicate capital efficiency and ROA to indicate asset efficiency. In line with the mid-term strategic directions announced in May 2015, ORIX Group aimed to achieve a net income attributable to ORIX Corporation shareholders target of ¥300 billion for the fiscal year ended March 31, 2018, and to maintain ROE around 11% to 12% with a focus on the growth of existing businesses and the expansion of non-finance businesses through new investment in key areas.

In the last three fiscal years ended March 31, 2018, in the domestic market, ORIX Group steadily developed its auto related business through its solid customer base, increased the number of life insurance policies through products that meet customer needs as well as enhanced sales channels and expanded the renewable energy business and electric power retailing business in the environment and energy business. In the overseas business, ORIX Group developed its fee businesses in the Americas, increased profit and assets under management in ORIX Corporation Europe N.V. and increased assets in the aircraft related business.





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Regarding new investment in key areas, ORIX Group set a precedent for its overseas development through its investments in the environment and energy business in the Americas and Asia, and expanded its fee businesses through several M&A transactions mainly in the Americas. Regarding the private equity businesses, ORIX Group built up a track record of investment and sales in Japan and also made several new investments in the Americas and Asia.

Furthermore, ORIX Group launched its concession business and joint airport operation business which is a first for a private operator.

As a result of above-mentioned measures, as of March 31, 2018, ORIX Group achieved a net income attributable to ORIX Corporation shareholders of ¥313.1 billion and ROE of 12.1% meeting its targets of net income attributable to ORIX Corporation shareholders of ¥300 billion and ROE around 11% to 12%.

From the fiscal year ending March 31, 2019, ORIX Group aims to achieve annual net income attributable to ORIX Corporation shareholders growth of between 4% to 8%, and to maintain ROE above 11% by increasing asset efficiency through quality asset expansion in order to capture business opportunities and increasing capital efficiency by strengthening profit-earning opportunities such as fee-based businesses.

Although forward-looking statements in this document are attributable to current information available to ORIX Corporation and are based on assumptions deemed reasonable by ORIX Corporation, actual financial results may differ materially due to various factors. Readers are urged not to place undue reliance on such forward-looking statements.

Three-year trends in performance indicators are as follows.

		As of March 31,		
		2016	2017	2018
Net income attributable to ORIX Corporation shareholders	(Millions of yen)	¥260,169	¥273,239	¥313,135
ROE <sup>(1)</sup>	(%)	11.7	11.3	12.1
ROA <sup>(2)(3)</sup>	(%)	2.32	2.46	2.76

- (1) ROE is the ratio of Net income attributable to ORIX Corporation shareholders for the period to average ORIX Corporation shareholders equity based on fiscal year beginning and ending balances.
- (2) ROA is the ratio of Net income attributable to ORIX Corporation shareholders for the period to average total assets based on fiscal year beginning and ending balances.
- (3) Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2015-03 ( Simplifying the Presentation of Debt Issuance Costs ASC 835-30 ( Interest Imputation of Interest )) in fiscal 2017.

**Medium- Term Strategic Directions FY2019-2021**

ORIX Group manages its business portfolio by dividing it into six segments: Corporate Financial Services, Maintenance Leasing, Real Estate, Investment and Operation, Retail, and Overseas Business.

Furthermore, taking risk and capital requirements into account, ORIX Group categorizes these six segments into three categories: Finance, Operation and Investment to describe its mid-term strategic directions. The Finance business is ORIX Group's customer base and source of information. However, given that the low interest rate environment makes

growth difficult in financial businesses, ORIX Group will continue to focus on Operation and Investment to grow stable earnings and will proactively enter new markets to nurture its next core businesses.

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The Operation business for which operational risk is taken by ORIX Group is positioned as ORIX Group's growth driver and source for new and stable earnings. ORIX Group will engage in M&A and expand new investment with a focus on the environment and energy business, asset management business, concession business and life insurance business as well as other new business areas coming from the change in society and the market.

The Investment business provides ORIX Group with opportunities to develop new businesses. ORIX Group focuses mainly on private equity businesses in Japan and overseas, aircraft and ship-related operations and will expand the scale of those businesses.

**Development of business structure toward the realization of management strategies**

It is vital for ORIX Group to continue to maintain and develop a business structure that can be flexibly and swiftly adapted to the changing business environment. ORIX Group will take the following three steps in order to achieve the aforementioned mid-term strategic directions.

*Further advancement of risk management:* Recognizing that business expansion and growth has diversified and globalized our risk, strengthen the business foundation with support our growth by readily and continuously utilizing our risk management structure and our ability to assess risks.

*Pursue transactions that are both socially responsible and economically viable:* Pursue transactions that are socially responsible from a social and environmental standpoint while providing products and services that are valued by clients and improve ORIX Group's overall profitability.

*Create a fulfilling workplace:* Focus on ORIX Group's strengths as a global organization to create a fulfilling work environment for all employees regardless of nationality, age, gender, background or position.

**PROFILE OF BUSINESS BY SEGMENT**

For a discussion of the basis for the breakdown of segments, see Note 33 of Item 18. Financial Statements. The following table shows a breakdown of profits by segment for fiscal 2016, 2017 and 2018.

	<b>Years ended March 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>(Millions of yen)</b>		
Corporate Financial Services	¥ 42,418	¥ 38,032	¥ 49,275
Maintenance Leasing	42,935	39,787	40,162
Real Estate	42,902	72,841	62,372
Investment and Operation	57,220	85,000	96,120
Retail	51,756	72,865	74,527
Overseas Business	142,879	112,312	106,602
<b>Total segment profits</b>	<b>380,110</b>	<b>420,837</b>	<b>429,058</b>
Difference between segment total and consolidated amounts	11,192	4,128	6,443
<b>Total Consolidated Amounts</b>	<b>¥ 391,302</b>	<b>¥ 424,965</b>	<b>¥ 435,501</b>

Each of our segments is briefly described below.

### **BUSINESS SEGMENTS**

ORIX organizes its businesses into six segments to facilitate strategy formulation, resource allocation and portfolio balancing at the segment level. These six business segments are: Corporate Financial Services,

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Maintenance Leasing, Real Estate, Investment and Operation, Retail and Overseas Business. Management believes that organizing our business into large, strategic units allows us to maximize our corporate value by identifying and cultivating strategic advantages vis-à-vis anticipated competitors in each area and by helping ORIX Group achieve competitive advantage overall.

An overview of operations, operating environment and operating strategy for each of the six segments follows.

### **Corporate Financial Services Segment**

#### ***Overview of Operation***

This segment has its origin in the leasing business developed at the time of ORIX's establishment in 1964. Even today, this segment serves as the foundation for the entire ORIX Group's sales activities.

Operating through a nationwide network, ORIX provides leasing and loans and engages in various other fee businesses by providing products and services aligned with customer needs to its core customer base of domestic small and medium-sized enterprises (SMEs). The Corporate Financial Services segment functions as the central point of contact for the entire ORIX Group by gathering information on customers and products/services and responding to customer needs, including in connection with business succession and overseas expansion.

This segment promotes consolidated management by collaborating with other business segments and Group companies, both domestic and foreign. In this way, this segment creates cross-functional tie-ups with Group customers in order to swiftly provide wide-ranging services backed by expertise.

#### ***Operating Environment***

See Segment Information of Item 5. Operating and Financial Review and Prospects Results of operations.

#### ***Mid-term Strategic Directions***

Diversify the source of services income

Maximize synergy potential with Yayoi

Utilize domestic network to develop new businesses

#### ***Operating Strategy***

Through various transactions, sales personnel in the Corporate Financial Services segment deepen their understanding of the segment's customers, including their specific needs and management issues. With this segment constituting ORIX's sales platform, sales personnel develop and deliver optimum solutions to customers by leveraging the high-level expertise of the Group's business segments to expand the Group's business opportunities. We seek to enhance the profitability of the Group as a whole by expanding the customer base through stronger cooperation with Group companies. Moreover, we seek to increase revenues from fee business by providing products and services aligned with customer needs.

Specifically, we provide a wide range of product and services such as life insurance, environment and energy service, auto lease related services and also strengthen our business to provide solutions against diversified business challenges which customers face such as business succession. Moreover, the segment will also focus on new areas such as IT, healthcare and agriculture to develop new business opportunities.

This segment seeks to develop new businesses and services to expand the Group's customer base and build a more stable revenue base.

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### **Maintenance Leasing Segment**

#### ***Overview of Operation***

The Maintenance Leasing segment consists of ORIX's automobile and rental operations, both of which possess a high level of expertise.

In its automobile leasing business, ORIX engages in leasing, automobile rental and car sharing businesses. Automobile leasing operations began by offering leases including maintenance to corporate clients. Today, the segment's services include a complete range of vehicle maintenance outsourcing services requiring high-level expertise that encompasses solutions that meet clients' compliance, environmental and safety management needs. This segment also offers a broad spectrum of tailor-made services that address both corporate and individual client needs.

Having initially specialized in precision measuring equipment rentals for corporate customers, the rental business has greatly expanded the range of offered products and currently includes IT-related equipment and medical equipment, environmental analysis equipment as well as tablet computers. The rental business also offers a diverse range of services such as technical support, sales of software packages, equipment calibration and asset management.

#### ***Operating Environment***

See Segment Information of Item 5. Operating and Financial Review and Prospects Results of operations.

#### ***Mid-term Strategic Directions***

Capitalize on competitive advantage to increase market shares

Make the change of industrial structure into new business opportunities

Strengthen engineering solution business

#### ***Operating Strategy***

The automobile business aims to increase its leased assets to reinforce and expand its customer base. In Japan, while the leasing rate of vehicle fleets for enterprises that own more than 30 vehicles is relatively high, it is very low for enterprises and individuals that own 30 vehicles or fewer. Instead, these smaller enterprises and individuals account for a large proportion of the vehicles owned in Japan. Therefore, the automobile business will strive to increase the proportion of the customer base consisting of smaller enterprises and individuals while continuing to grow the large-enterprise customer base. Moreover, we will strive to reinforce relationships with customers through cross-functional marketing activities with corporate sales departments in Japan that cut across the Group.

The automobile business is strengthening the provision of high value-added services. Seeking to ensure a stable revenue stream and differentiate itself from competitors, the automobile business leverages its consulting capabilities to select and offer optimum services to customers, including from a wide range of vehicle management services. While continually reviewing the line-up of products and services in response to changes in the business environment and evolving customer needs, the automobile business develops new products and services to create new market

segments. In addition, to develop the business for individuals, we will propose a wide range of approaches to car use, such as car rental and car sharing, to meet individual customer s diverse needs and provide elaborate services.

In the equipment rental business, while working to maintain our high market share, we intend to expand and strengthen our revenue base by increasing the number of new customers by focusing on growth areas, increasing



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rental of high margin products and introducing new rental items. We will also expand our customer base and range of products in the fields of environment and energy, environmental analysis, electronic components and next-generation automobile development and promote medical equipment rentals that require a high level of expertise and other high value-added rentals by providing applications and cloud services designed to meet the needs of customers renting tablet computers. We will seek tie-ups with manufacturers and system companies in order to expand our products and services.

All of our businesses in the Maintenance Leasing segment will seek to continue strengthening business management and cost control to maintain their high profitability and competitiveness.

## **Real Estate Segment**

### ***Overview of Operation***

The Real Estate segment is mainly comprised of the real estate development and rental, facility operation, REIT asset management, and real estate investment advisory services.

In the real estate development and rental business, ORIX Group is involved not only in developing and leasing properties such as office buildings, commercial properties, logistics centers and residences but also in asset management, where ORIX Group has a high level of expertise.

The facilities operations business handles accommodations, aquariums, golf courses, training facilities, senior housings, baseball stadiums, and theaters.

### ***Operating Environment***

See Segment Information of Item 5. Operating and Financial Review and Prospects Results of operations.

### ***Mid-term Strategic Directions***

Expand asset management business

Accumulate expertise by operating various facilities

Develop new businesses by taking advantage of the value chain

### ***Operating Strategy***

In the real estate development business, we will promote the development of complex facilities not only in major urban areas but also in areas abundant in tourism resources with the knowledge and experience acquired through the various real estate development and rental businesses and facility operation businesses. And we also develop the most advanced logistic facilities which is adopted to online shopping market by utilizing the land information acquired through the sales network and grasping customers' needs. In the real estate rental business, we will enhance our portfolio by selling properties at appropriate times and by promoting new investments in properties continuously.

In the asset management business, we will increase the assets under management in ORIX Asset Management Corporation and ORIX Real Estate Investment Advisors Corporation to expand our fee business. In the facilities operation business, we will continue to invest in hotels and inns by selecting those locations carefully. In operating our existing facilities, we believe ORIX can add value through providing attractive accommodations that our customers are satisfied with and want to revisit.

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As mentioned above, we will make stable profit through the asset management business and facility operating business while developing new businesses by making best use of our broad expertise in real estate business and group network.

## **Investment and Operation Segment**

### ***Overview of Operation***

In the Investment and Operation business segment, ORIX is engaged in three core business activities: environment and energy business, principal investments and concession.

For more than ten years, ORIX has been actively involved in the environment and energy business through the collection and disposal of waste generated from end-of-lease assets. In addition to waste processing, recycling and energy-saving services our environment and energy business includes renewable energy such as mega-solar and electric power retailing. Overseas, we have invested in projects including a wind power generation business in India and in the large private hydropower company in Vietnam to further strengthen the energy business in Asia.

The principal investment business invests in private equity both in Japan and overseas and capitalizes on the expertise and collective strength of the Group to increase the corporate value of investees.

On April 1, 2016, Kansai Airports, established by a consortium anchored by ORIX and VINCI Airports, a French company, commenced operation of the Kansai International Airport and Osaka International Airport as a concession. Balancing the ingenuity, dynamism, and the social responsibilities for managing public infrastructure as the first airport operator managed by private company in our country, Kansai Airports will contribute to the ongoing development.

### ***Operating Environment***

See Segment Information of Item 5. Operating and Financial Review and Prospects Results of operations.

### ***Mid-term Strategic Directions***

Accelerate renewable energy business in overseas

Diversify the methods and expand the target zone in the business investment area

Expand the scope in concession business

### ***Operating Strategy***

In our environment and energy business, we will increase investment in renewable energy. In Japan, we will focus on the development of energy sources other than solar power, such as wind power, geothermal power and biomass, and will work together with our domestic sales and marketing divisions to become one of Japan's leading renewable energy power companies. We also seek to expand the business of the deregulation of the electricity retail market. As for overseas, we will also use the experience and expertise cultivated in Japan to strengthen its electric power generation

and renewable energy business in emerging countries, in which energy demand is expected to expand. As part of this strategy, we invested in Ormat Technologies, Inc., ( Ormat ) the U.S. listed geothermal energy company in July 2017.

In the principal investment business, we will leverage our track record to carefully select and actively invest in foreign and domestic business operations. After investing, we will provide hands-on support backed by

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specialists, use our business platform of the Group to develop a base of customers and business partners and implement other measures to improve the corporate value of investees in a manner unique to ORIX. We will seek opportunistic investments without limiting the industries we invest in. In Japan, we emphasize domestic investment in medical-related fields, IT services and the food industry.

As for concession business, we commenced to operate Kobe Airport with VINCI Airports and Kansai Airports in April 2018 and will integrate the operation of Kansai International Airport, Osaka International Airport, and Kobe Airport. We also took part in the operation of wastewater treatment plant in Hamamatsu City and will continue to expand our operation to various public infrastructure.

## **Retail Segment**

### ***Overview of Operation***

The Retail business segment consists of life insurance business, banking business and card loan business.

ORIX Life Insurance Corporation ( ORIX Life Insurance ) was founded in 1991 and operates mainly through agencies and mail order sales. On July 1, 2014, ORIX Life Insurance acquired HLIKK, and the two companies merged on July 1, 2015. Regarding the banking business, ORIX Bank Corporation ( ORIX Bank ) inherited the housing loan business ORIX began handling in 1980 and is now involved in corporate lending and other services. ORIX Bank began card loan operations in March 2012.

### ***Operating Environment***

See Segment Information of Item 5. Operating and Financial Review and Prospects Results of operations.

### ***Mid-term Strategic Directions***

Grow from mid-size insurer to a major insurer

Develop new business fields of ORIX Bank

### ***Operating Strategy***

In this segment, as an overall strategy, we will continue to provide products with a high level of customer satisfaction and seek to develop a new market aimed at individual customers while continuing to enhance our efficiency and unique expertise in niche markets.

ORIX Life Insurance will continue to enhance its product lineup with new insurance products developed to meet customer needs. In addition to third-sector insurance such as cancer and medical treatment insurance, the company will focus on first-sector insurance such as life insurance and increasing the number of contracts. Regarding sales channels, while supporting continuous growth in the existing agency channel, we intend to expand our direct distribution channels. We will also seek to improve our financial strength by improving overall business efficiency.

ORIX Bank will keep operating and raising funds efficiently with high loan-deposit-ratio in order to meet active demand for money. In the housing-loan business, the company will increase its loan balance by making full use of its

networks and know-how accumulated over many years. ORIX Bank will also enter new business fields such as the investment trust business.

The card loan business plans to expand in two ways to acquire potential demand in the shrinking market. The first is to increase card loan balance through the collaboration of ORIX Bank and ORIX Credit by taking advantage of their human and knowledge resources. The second is to expand loan guarantee to other financial institutions by utilizing ORIX Credit's know-how of credit screening.

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### **Overseas Business Segment**

#### ***Overview of Operation***

Since first expanding into Hong Kong in 1971, ORIX Group has established an overseas network spanning 716 bases in 38 countries and regions.

In the Overseas Business segment, in the United States, asset management is at the heart of efforts to expand non-finance business and boasts a high level of expertise in the fields of corporate finance, securities investment, principal investment, loan origination and servicing and also fund management. Underpinned by a leasing, automobile leasing and corporate finance operating base that is aligned with the conditions of each country in Asia, the Overseas Business segment engages in principal investment activities, real estate-related businesses, as well as aircraft and ship-related operations that include leasing, financing, management, investment, intermediary and sales activities in the field of aircraft and ship.

Furthermore, in Europe, the Overseas Business segment conducts asset management operations for individual and corporate clients through ORIX Corporation Europe N.V., a Dutch holding company of global asset management companies that became a consolidated subsidiary of ORIX Group in July 2013 (hereinafter, ORIX Europe, one of the Company's subsidiaries, has changed its name from Robeco Groep N.V. on January 1, 2018).

#### ***Operating Environment***

See Segment Information of Item 5. Operating and Financial Review and Prospects Results of operations.

#### ***Mid-term Strategic Directions***

Proactively develop aircraft and ship-related operations

Expand asset management and PE investment business

Diversify overseas business with strengthened functions

#### ***Operating Strategy***

In the United States, we maintain a stable presence in our traditional business of investing in municipal bonds, CMBS and other fixed-income securities and providing corporate finance services. We also enhance the fee business through Red Capital Group's loan structuring and servicing services and Mariner Investment Group's fund management services. Since the acquisition of Boston Financial Investment Management LP, a syndicator in the Low Income Housing Tax Credit industry in July 2016 and Lancaster Pollard Holdings, LLC, which provides integrated investment banking, mortgage banking, balance sheet lending and private equity services focused on the full continuum of senior living in September 2017, we continue to expand fee businesses.

In Asia and Oceania, while seeking to maintain stable profits from the financial services business platform of our existing local subsidiaries, which offer locally based lending and leasing, we plan to diversify our business into related fields. We will promote new investment activities in as-yet unexplored areas.

In the aircraft-related operations, we will make new investments by carefully selecting aircraft types, age and other important factors for our portfolio. In addition to pursuing opportunities to profit from Company-owned assets, we will seek to generate fees from our services relating to the management of the aircraft to investors and financial institutions. In the ship-related operations, we will accelerate investment in shipping loans particularly in Europe with the cultivated expertise ranging from ship finance, ownership, management and operations to ship purchases, sales and brokerage.



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In addition to the sustained growth of ORIX Europe, we will endeavor to expand the asset management business and also consider new investments.

**DIVISIONS, MAJOR SUBSIDIARIES AND AFFILIATES**

A list of major subsidiaries can be found in Exhibit 8.1.

**CAPITAL PRINCIPAL EXPENDITURES AND DIVESTITURES**

We are a financial services company with significant leasing, lending, real estate development and other operations based on investment in tangible assets. As such, we are continually acquiring and developing such assets as part of our business. A detailed discussion of these activities is presented elsewhere in this annual report, including in other parts of Item 4. Information on the Company and in Item 5. Operating and Financial Review and Prospects.

In general, we seek to expand and deepen our product and service offerings and enhance our financial performance through acquisitions of businesses or assets. We continually review acquisition opportunities, and selectively pursue such opportunities. We have in the past deployed a significant amount of capital for acquisition activities and expect to continue to make investments, on a selective basis. For a discussion of certain of our past acquisitions, see Item 4. Information on the Company Corporate History.

**PROPERTY, PLANT AND EQUIPMENT**

Because our primary business is to provide various financial services to our clients, we do not own any material factories or facilities that manufacture products. We have no plans to build any factories that manufacture products.

The following table shows the book values of the primary facilities we own, which include three office buildings, one thermal power station, two solar power stations and one hotel.

	<b>As of March 31, 2018</b>	
	<b>Book Value</b>	<b>Land Space<sup>(1)</sup></b>
	<b>(Millions of yen)</b>	<b>(Thousands of m<sup>2</sup>)</b>
Office building (Tachikawa, Tokyo)	¥ 13,572	3
Office building (Shiba, Minato-ku, Tokyo)	30,803	2
Office building (Osaka, Osaka)	10,270	2
Thermal power station (Soma, Fukushima)	30,573	63
Solar power station (Tsu, Mie)	15,479	1,193
Solar power station (Tomakomai, Hokkaido)	12,030	
Hotel (Beppu, Oita)	10,803	159

<sup>(1)</sup> Land space is provided only for those facilities where we own the land.

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We plan to make capital expenditures totaling approximately ¥563,000 million to support the growth and development of our operating lease business and power generation business during fiscal 2019. The following table shows a breakdown of planned capital expenditures and includes the estimated investment amounts and expected methods of financing the expenditures.

	<b>Estimated investment amounts (Millions of yen)</b>	<b>Fiscal 2019 Expected methods of financing</b>
Operating lease equipment and property	¥ 480,000	Funds on hand, bank borrowings, etc.
Power generation equipment	83,000	Funds on hand, bank borrowings, etc.
<b>Total</b>	<b>¥ 563,000</b>	

Our operations are generally conducted in leased office space in cities throughout Japan and in other countries in which we operate. We believe our leased office space is suitable and adequate for our needs. We utilize, or expect to utilize in the near future, substantially all of our leased office space.

We own office buildings, apartment buildings and recreational facilities for our employees and others with an aggregate book value of ¥112,962 million as of March 31, 2018.

As of March 31, 2018, the acquisition cost of equipment we held for operating leases amounted to ¥1,919,826 million, consisting of ¥1,249,683 million of transportation equipment, ¥245,492 million of measuring and information-related equipment, ¥395,533 million of real estate and ¥29,118 million of others, before accumulated depreciation. Accumulated depreciation on equipment held for operating leases was ¥605,415 million as of the same date.

**SEASONALITY**

Our business is not materially affected by seasonality.

**RAW MATERIALS**

Our business does not materially depend on the supply of raw materials.

**PATENTS, LICENSES AND CONTRACTS**

Our business and profitability are not materially dependent on any patents or licenses, industrial, commercial or financial contracts, or new manufacturing processes.

**BUSINESS REGULATION**

ORIX and its group companies in Japan are incorporated under, and our corporate activities are governed by, the Companies Act. However, ORIX and its group companies are involved in diverse businesses in overseas jurisdictions, including in Asia, America, the Middle East and Europe, and are therefore subject to various regulations and supervision in each jurisdiction in which they operate, including, but not limited to, regulations relating to business and investment approvals, antitrust, anti-bribery, consumer and business taxation, foreign exchange controls, intellectual property and personal information protection.

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The next section describes the laws and regulations of our business in Japan and the United States and Europe, our major areas of operation outside Japan.

**JAPAN**

There is no general regulatory regime which governs the conduct of our direct financing lease and operating lease businesses in Japan, although various laws regulate certain aspects of particular lease transactions, depending on the type of leased property.

The major regulations that govern our businesses are as follows:

***Moneylending Business***

ORIX and certain of our group companies are engaged in the moneylending business in Japan. The moneylending business is regulated by the Interest Rate Restriction Act, the Act Regulating the Receipt of Contributions, the Receipt of Deposits and Interest Rates and the Moneylending Business Act. The Moneylending Business Act requires that all companies engaged in moneylending business register with the Prime Minister and the relevant prefectural governors. Registered moneylenders are regulated by the Financial Services Agency ( FSA ), and are required to report to or notify the FSA, providing specified documents such as their annual business reports. Accordingly, pursuant to the Moneylending Business Act, ORIX and certain of our group companies have registered with the Prime Minister and various prefectural governors and provide the necessary reporting and notification to the FSA. The FSA has the power to issue business improvement orders to suspend all or part of a money lender's activities, or to revoke the registration of a moneylender that has violated the law.

***Real Estate Business***

ORIX and certain of our group companies, including ORIX Real Estate Corporation and DAIKYO, are engaged in the real estate business in Japan, including buying and selling land and buildings. Companies engaged in such operations are required to be licensed by the Ministry of Land, Infrastructure and Transport ( MoLIT ) and relevant prefectural governors under the Building Lots and Buildings Transaction Business Act, and their operations are regulated by such laws, including the maintenance of registered real estate transaction managers on staff and the provision and delivery of material information to counterparties. DAIKYO has a Construction Business License from MoLIT. Inns and hotels operated by ORIX Group have licenses from relevant prefectural governors under the Inns and Hotels Act, etc.

***Car Rental Business***

ORIX Auto Corporation ( OAC ) is registered with MoLIT under the Road Transportation Law to engage in the car rental business in Japan and is subject to the requirements of this law and is licensed by the Minister of MoLIT.

***Insurance Business***

ORIX Life Insurance is engaged in the life insurance business and has a license from the Prime Minister under the Insurance Business Act. The FSA has broad regulatory powers over the life insurance business of ORIX Life Insurance, including the authority to grant or, under certain conditions, revoke its operating license, to request information regarding its business or financial condition and to conduct on-site inspections. ORIX Life Insurance generally must also receive FSA approval for the sale of new products and to set new pricing terms. In addition, under the Insurance Business Act regulations, any party attempting to acquire voting rights in an insurance company at or above a specified threshold must receive approval from the Prime Minister. We have received such approval as a

major shareholder of ORIX Life Insurance. Insurance solicitation, which we and our group companies conduct, is also governed by the Insurance Business Act. We and certain of our group companies, such as OAC, are registered as insurance agents with the Prime Minister.

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**Table of Contents*****Financial Instruments Exchange Business***

Certain businesses conducted by ORIX and our group companies in Japan are governed by the Financial Instruments and Exchange Act, the main purpose of which is to establish comprehensive and cross-sectional protection for investors. The financial instruments business as defined in the Financial Instruments and Exchange Act has four classifications, depending on the type of business: (1) First Class Financial Instruments Exchange Business, (2) Second Class Financial Instruments Exchange Business, (3) Investment Management Business, and (4) Investment Advisory and Agency Business. All companies engaged in such businesses are required to register with the Prime Minister, after which they designated registered financial instruments traders. Along with registered financial instruments traders, companies engaged in the financial instruments intermediary business, which is also governed by the Financial Instruments and Exchange Act, are regulated by the FSA and are required to file certain reports or notifications with the FSA. The FSA has the power to order improvement of a business, or suspension of a part or the whole of a business, or to revoke the registration of such a trader that has violated the law. Business regulations applicable to ORIX and our group companies are as follows:

***Second Class Financial Instruments Exchange Business***

ORIX and certain of our group companies are registered with the Prime Minister under the Financial Instruments and Exchange Act to conduct second class financial instruments exchange business.

***Investment Management Business***

ORIX Asset Management Corporation ( OAM ), ORIX Real Estate Investment Advisors Corporation ( ORIA ), wholly owned subsidiaries, and Robeco Japan Company Limited ( Robeco Japan ), a subsidiary of ORIX Europe, are each registered with the Prime Minister under the Financial Instruments and Exchange Act as an investment manager. OAM is responsible for the asset management of a real estate investment corporation, ORIX JREIT Inc., which is listed on the Tokyo Stock Exchange. Under the Financial Instruments and Exchange Act, any entity possessing voting rights in an investment manager at or above a specified threshold is considered a major shareholder and must report its shareholding to the Prime Minister. ORIX has filed such report as a major shareholder of OAM, ORIA and Robeco Japan.

***Investment Advisory and Agency Business***

ORIA and Mariner Japan Inc., an affiliate of Mariner Investment Group LLC, are registered with the Prime Minister under the Financial Instruments and Exchange Act to engage in the investment advisory and agency business and regulated by the FSA.

***Banking and Trust Business***

ORIX Bank is licensed by the Prime Minister to engage in the banking and trust business and is regulated under the Banking Act and the Act on Engagement in Trust Business by Financial Institutions. The Banking Act governs the general banking business and the Act on Engagement in Trust Business by Financial Institutions and the Trust Business Act govern the trust business. In addition, under the Banking Act, any entity that attempts to obtain voting rights in a bank at or above a specified threshold must receive permission from the Prime Minister. ORIX has received such permission as a major shareholder of ORIX Bank.

***Debt Management and Collection Business***

ORIX Asset Management & Loan Services Corporation ( OAMLS ) is engaged in the loan servicing business and the business of managing and collecting certain assets. Consequently, OAMLS is regulated under the Act on Special Measures Concerning Business of Management and Collection of Claims. OAMLS is licensed by the Minister of Justice under such law to engage in the loan servicing business.

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### ***Waste Management***

ORIX Environmental Resources Management Corporation and ORIX Eco Services Corporation provide waste management services regulated by the Waste Management and Public Cleansing Act and have the permission from the relevant prefectural governors.

### ***Regulation on Share Acquisitions***

Certain activities of ORIX and our group companies are regulated by the Foreign Exchange and Foreign Trade Law of Japan and regulations promulgated thereunder (the Foreign Exchange Regulations ).

Under the Foreign Exchange Regulations, ORIX and certain of our group companies in Japan are regulated as residents conducting capital transactions or foreign direct investments.

To conduct such activities under the Foreign Exchange Regulations, notices or reports are required to be filed with the Minister of Finance through the Bank of Japan.

## **OUTSIDE JAPAN**

ORIX USA is incorporated under the laws of the state of Delaware, and its corporate activities are governed by the Delaware General Corporation Law.

The SEC, the Financial Industry Regulation Authority ( FINRA ) and various state agencies regulate the issuance and sale of securities and the activities of broker-dealers, investment companies and investment advisers in the United States. ORIX USA 's majority-owned subsidiary, Mariner Investment Group, LLC ( Mariner ), is a registered investment adviser regulated by the SEC. ORIX USA 's wholly-owned subsidiary Mariner Group Capital Markets, LLC ( MGCM ) is a registered limited purpose broker-dealer regulated by the SEC and FINRA. ORIX USA 's wholly-owned subsidiary RED Capital Group, LLC has a subsidiary called RED Capital Markets, LLC that is registered as a broker-dealer and regulated by the SEC and FINRA. ORIX USA 's wholly-owned subsidiary Lancaster Pollard Holdings, LLC has a subsidiary called Lancaster Pollard & Co., LLC that is also registered as a broker-dealer and regulated by the SEC and FINRA. ORIX USA and its other subsidiaries are not subject to these regulations but must comply with U.S. federal and state securities laws.

ORIX USA 's corporate finance, real estate finance and development, equipment finance, public finance and special servicing businesses are subject to numerous state and federal laws and regulations. Commercial and real estate loans may be governed by the USA PATRIOT Act, the Equal Credit Opportunity Act and Regulation B thereunder, the Flood Disaster Protection Act, the National Flood Insurance Reform Act of 1994 and state usury laws. Real estate transactions are also governed by state real property and foreclosure laws. ORIX USA 's secured finance transactions are governed by the Uniform Commercial Code, as adopted by the various states. ORIX USA is registered with or has obtained licenses from the various state agencies that regulate the activity of commercial lenders in such states. For example, its consolidated subsidiary, ORIX Corporate Capital Inc., is a Delaware Licensed Lender, and its consolidated subsidiary, ORIX Growth Capital, LLC, is licensed as a California Finance Lender.

In May 2010, ORIX USA acquired RED Capital Group LLC ( RED ), and in September 2017, ORIX USA acquired Lancaster Pollard Holdings, LLC ( LPH ). Each of RED and LPH is based in Columbus, Ohio and provides debt and equity capital, as well as advisory services, to the housing, health care, and real estate industries. RED and LPH and their respective subsidiaries must comply with rules and regulations administered by the Government National Mortgage Association, the Federal National Mortgage Association, the Department of Housing and Urban



Development and the Federal Housing Administration. RED must also comply with the rules and regulations of The Federal Home Loan Mortgage Corporation. RED Mortgage Capital, LLC and RED Capital Partners, LLC are licensed California Finance Lenders.

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In December 2010, ORIX USA acquired MIG Holdings, LLC, the parent company of Mariner. Mariner is registered with the SEC as an investment advisor and is headquartered in Harrison, New York, with affiliated offices in the New York City, London, and Tokyo. In addition, Mariner is registered as a commodity pool operator with the U.S. Commodity Futures Trading Commission and a member of the National Futures Association. ORIX USA's wholly owned subsidiary and private equity platform, ORIX Capital Partners, LLC, is an affiliated relying adviser to Mariner and registered with the SEC.

In July 2016, ORIX USA acquired Boston Financial Investment Management, LP ( BFIM ), a Boston, Massachusetts based syndicator and portfolio and asset manager of low income apartment properties that benefit from the Federal Low Income Housing Tax Credit (LIHTC). As the beneficiary of tax credits and often other subsidy and loan programs, a typical LIHTC property is typically regulated at the Federal, state and local levels. As a passive limited partner investor, BFIM does not manage the property day to day. Rather, a third party general partner manages the property and has responsibility for compliance with applicable laws and regulations. As the investor, BFIM monitors such compliance.

Disruptions in the U.S. financial markets starting in 2007 caused lawmakers and regulators to evaluate the effectiveness of their oversight of the financial services industry, and eventually resulted in the adoption of the Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank Act ) by the U.S. Congress in January 2010. Certain regulations promulgated under the Dodd-Frank Act may affect our business operations. For example, the Dodd-Frank Act establishes the Financial Stability Oversight Counsel ( FSOC ) charged with, among other things, designating systemically important nonbank financial institutions for heightened supervisory requirements and prudential standards, supervision and regulation. In April 2012, the FSOC adopted its final rule and issued interpretive guidelines on criteria for designating systemically important nonbank financial institutions. The FSOC has not as of this date designated ORIX as a systemically important nonbank financial institution.

Outside of the United States, Mariner Investment (Europe) LLP is an affiliated relying adviser to Mariner that is headquartered in London and authorized and regulated by the Financial Conduct Authority ( FCA ) in the UK and as such is subject to minimum regulatory capital requirements. Mariner Investment (Europe) LLP is categorized as a BIPRU 50k limited license firm. It is an investment management firm. Also outside of the United States, in December 2016 ORIX USA, through its Brazilian subsidiary, acquired a controlling interest in RB Capital S.A. ( RB Capital ), a Brazilian capital markets and asset management platform. RB Capital controls two publicly held companies, RB Capital Companhia de Securitização and Salus Infraestrutura Portuária S.A, registered before the Securities and Exchange Commission of Brazil ( CVM ). RB Capital Companhia de Securitização is also a securitization company and regulated by the CVM. In addition, RB Capital controls an asset management company, RB Capital Asset Management Ltda., which is registered and authorized by the CVM to manage assets in Brazil.

On July 2013, ORIX acquired approximately 90.01% (90% plus one share) of the total voting shares (equity interests) of ORIX Europe, the ultimate holding company of the ORIX Europe Group. On October 2016, ORIX acquired the remaining 9.99% (10% minus one share) of the total voting shares (equity interests) of ORIX Europe. The ORIX Europe Group consists of the following regulated entities.

Robeco Institutional Asset Management B.V. ( RIAM ), a subsidiary of ORIX Europe, is authorized and regulated by *The Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten ( AFM ))* and *The Dutch Central Bank (De Nederlandsche Bank ( DNB ))* in the Netherlands, *inter alia*, to offer certain investment services. RIAM has branches and representative offices worldwide, including in Dubai, Germany, Spain, Italy and the United Kingdom, each of which either benefits from RIAM's European passport or is subject to local regulatory supervision.

Transtrend B.V., a subsidiary of ORIX Europe that offers asset management and commodity trading advisory services, is also authorized and regulated by AFM and DNB, and is registered with the National Futures

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Association in the United States ( NFA ) and regulated by the NFA and the Commodity Futures Trading Commission in the United States ( CFTC ).

Harbor Capital Advisors, Inc., Boston Partners Global Investors, Inc., and Robeco Institutional Asset Management US, Inc. are registered with and regulated by the SEC to provide investment advisory services in the United States. Harbor Capital Advisors, Inc. is also registered with and regulated by the NFA and the CFTC.

Harbor Services Group, Inc. acts as transfer agent and is registered with the SEC.

Boston Partners Global Investors, Inc. is also registered with the *Financial Services Commission* ( FSC ) in Korea. Furthermore, Boston Partners Global Investors, Inc. is registered as a commodity trading adviser and a commodity pool operator with the CFTC and is a member of the NFA.

Boston Partners Securities L.L.C. and Harbor Funds Distributors Inc. are investment advisors (broker-dealers) registered with the SEC and members of the FINRA.

Boston Partners UK Ltd is a wholly owned subsidiary of Boston Partners Global Investors, Inc and is registered as an investment adviser with the FCA.

Boston Partners Trust Company is a wholly owned subsidiary of Boston Partners Global Investors, Inc. and is registered with the *New Hampshire Banking Commission* ( NHBC ).

RobecoSAM AG, a subsidiary of ORIX Europe, is authorized and regulated by the *Swiss Financial Market Supervisory Authority* ( FINMA ).

Robeco Luxembourg S.A., a subsidiary of ORIX Europe, is authorized and regulated by the *Commission de Surveillance du Secteur Financier* in Luxembourg ( CSSF ).

Robeco Hong Kong Ltd. ( RHK ), a subsidiary of ORIX Europe, is licensed by the *Securities & Futures Commission of Hong Kong* ( SFC ) to offer asset management and investment advisory services. RHK has a branch in Australia which has been approved by the *Australian Securities and Investments Commission* ( ASIC ).

Robeco France S.A.S., a subsidiary of ORIX Europe, is authorized and regulated by the *Autorité de contrôle prudentiel et de résolution* ( ACPR ) in France and the *Autorité des Marchés Financiers* ( AMF ) in France.

Robeco Singapore Private Limited, a subsidiary of ORIX Europe, is licensed by the *Monetary Authority of Singapore* ( MAS ).

Robeco Switzerland A.G., a subsidiary of ORIX Europe, is licensed by the *Swiss Financial Market Supervisory Authority* ( FINMA ).

Corestone Investment Managers AG, a subsidiary of ORIX Europe, is admitted to the *Financial Services Standards Association* ( VQF ).

Robeco Miami B.V. a subsidiary of ORIX Europe, is registered with and regulated by the SEC and member of the FINRA.

## **LEGAL PROCEEDINGS**

We are a plaintiff or a defendant in various lawsuits arising in the ordinary course of our business. We aggressively manage our pending litigation and assess appropriate responses to lawsuits in light of a number of

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factors, including the potential impact of the actions on the conduct of our operations. In the opinion of management, none of the pending legal matters is expected to have a material adverse effect on our financial condition or results of operations. However, there can be no assurance that an adverse decision in one or more of these lawsuits will not have a material adverse effect.

**Item 4A. Unresolved Staff Comments**

None.

**Item 5. Operating and Financial Review and Prospects****Table of Contents for Item 5**

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**OVERVIEW**

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 our financial condition and results of operations in the future may also be affected by factors other than those discussed here. This discussion should be read in conjunction with Item 3. Key Information Risk Factors and Item 18. Financial Statements included in this annual report.

**Results Overview**

Fiscal 2018 was the last fiscal year of our medium-term strategy announced in May 2015. Despite increasing market volatility, stable growth has been observed in many regions worldwide particularly in the United States. Our group company in the United States recorded a decrease in deferred tax liabilities due to the U.S. tax reform measured enacted in December 2017. Under the aforementioned circumstances, ORIX strived to manage its businesses based on the performance indicators of profitability, capital efficiency and asset efficiency. Due to the impact of U.S. tax reform measures on ORIX Group companies, as well as growth of the existing businesses, and profit contribution from new businesses, for fiscal 2018 ORIX recorded tall-time high net income for the fourth consecutive years and net

income growth for the ninth consecutive years achieved net income attributable to ORIX Corporation shareholders of ¥313.1 billion and ROE of 12.1%, exceeding its target net income attributable to ORIX Corporation shareholders of ¥300 billion and target ROE around 11% to 12%.

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Net Income Attributable to ORIX Corporation Shareholders for fiscal 2018 increased 15 % to ¥313,135 million compared to fiscal 2017, primarily due to increases in profits from the Corporate Financial Services segment, the Maintenance Leasing segment, the Investment and Operation segment and Retail segment, although profits from the Real Estate segment and the Overseas Business segment decreased.

The main factors underlying our performance in fiscal 2018 are outlined below

The Corporate Financial Services segment's profits increased due to increases in gains on sales of securities and services income despite a decrease in finance revenues from a decrease in average investment balance.

The Maintenance Leasing segment's profits increased due to increases in finance revenues and operating leases revenues in line with an increased average segment asset balance and an increase in services income.

The Real Estate segment's profits decreased due to a decrease in gains on sales of rental property, despite an increase in services income from facilities operations.

The Investment and Operation segment's profits increased due to increases in sales of goods from subsidiaries in the principal investment business, services income from the environment and energy business and equity in net income of affiliates.

The Retail segment's profits increased due to an increase in life insurance premiums and related investment income.

The Overseas Business segment's profits decreased due to decreases in equity in net income of affiliates and gains on sales of subsidiaries and affiliates and liquidation losses, net, despite increases in services income in the asset management business and operating leases revenues from our aircraft-related operations including gains on sales of aircraft.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Note 1 of Item 18. Financial Statements includes a summary of the significant accounting policies used in the preparation of our consolidated financial statements. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and the possibility that future events affecting the estimates may differ significantly from management's current judgments. We consider the accounting estimates discussed in this section to be critical for us for two reasons. First, the estimates require us to make assumptions about matters that are highly uncertain at the time the accounting estimates are made. Second, different estimates that we reasonably could have used in the relevant period, or changes in the accounting estimates that are reasonably likely to occur from period to period, could have a material impact on the presentation of our financial condition, changes in financial condition or results of operations. We believe the following represent our critical accounting policies and estimates.

## **FAIR VALUE MEASUREMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, a number of significant judgments, assumptions and estimates may be required. If observable market prices are not available, we use internally-developed valuation techniques, such as discounted cash flow methodologies, to measure fair value. These valuation techniques involve determination of assumptions that market participants would use in pricing the asset or liability. This



determination involves significant judgment, and the use of different assumptions and/or valuation techniques could have a material impact on our financial condition or results of

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operations. Significant assumptions used in measuring fair values have a pervasive effect on various estimates, such as estimates of the allowance for real estate collateral-dependent loans, measurement of impairment of investments in securities, measurement of impairment of goodwill and intangible assets that have indefinite useful lives, measurement of impairment of long-lived assets and recurring measurements of loans held for sale, investments in securities and derivative instruments.

The Company and its subsidiaries classify and prioritize inputs used in valuation techniques to measure fair value into the 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 assets or liabilities, either directly or indirectly.

Level 3 Unobservable inputs for the assets or liabilities.

The Company and its subsidiaries differentiate 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). We mainly measure loans held for sale, trading securities, available-for-sale securities, other securities, derivatives, reinsurance recoverables in other assets and variable annuity and variable life insurance contracts in policy liabilities and policy account balances at fair value on a recurring basis. Certain subsidiaries measure certain loans held for sale, certain foreign government bonds, foreign corporate debt securities and equity securities in available-for-sale securities, certain fund investments in other securities, certain reinsurance recoverables, and variable annuity and variable life insurance contracts at fair value on a recurring basis as they elected the fair value option.

The following table presents recorded amounts of major financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2018:

	<b>March 31, 2018</b>			
	<b>Total Carrying Value in Consolidated Balance Sheets</b>	<b>Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
	(Millions of yen)			
<b>Financial Assets:</b>				
Loans held for sale	¥ 17,260	¥ 0	¥ 17,260	¥ 0
Trading securities	422,053	35,766	386,287	0
Available-for-sale securities	1,015,477	65,716	828,844	120,917

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Other securities	37,879	0	0	37,879
Derivative assets	21,831	507	19,033	2,291
Other assets	15,008	0	0	15,008

Total	¥ 1,529,508	¥ 101,989	¥ 1,251,424	¥ 176,095
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**Financial Liabilities:**

Derivative liabilities	¥ 12,400	¥ 318	¥ 12,082	¥ 0
Policy Liabilities and Policy Account Balances	444,010	0	0	444,010

Total	¥ 456,410	¥ 318	¥ 12,082	¥ 444,010
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Compared to financial assets classified as Level 1 and Level 2, measurements of financial assets classified as Level 3 are particularly sensitive because of their significance to the financial statements and the possibility that future events affecting the fair value measurements may differ significantly from management's current measurements.

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As of March 31, 2018, financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) and the percentages of total assets were as follows:

	<b>March 31, 2018</b>	
	<b>Significant Unobservable Inputs (Level 3) (Millions of yen, except percentage data)</b>	<b>Percentage of Total Assets (%)</b>
<b>Level 3 Assets:</b>		
Available-for-sale securities	¥ 120,917	1
Corporate debt securities	3,037	0
Specified bonds issued by SPEs in Japan	861	0
CMBS and RMBS in the Americas	36,010	0
Other asset-backed securities and debt securities	81,009	1
Other securities	37,879	0
Investment funds	37,879	0
Derivative assets	2,291	0
Options held/written and other	2,291	0
Other assets	15,008	0
Reinsurance recoverables	15,008	0
<b>Total Level 3 financial assets</b>	<b>¥ 176,095</b>	<b>2</b>
<b>Total assets</b>	<b>¥ 11,425,982</b>	<b>100</b>

As of March 31, 2018, the amount of financial assets classified as Level 3 was ¥176,095 million, financial assets that we measured at fair value on a recurring basis. Level 3 assets represent 2% of our total assets.

Available-for-sale securities classified as Level 3 are mainly CMBS and RMBS in the Americas and other asset-backed securities and debt securities. CMBS and RMBS in the Americas and other asset-backed securities and debt securities classified as Level 3 available-for-sale securities were ¥36,010 million and ¥81,009 million as of March 31, 2018, which are 30% and 67% of total Level 3 available-for-sale securities, respectively.

With respect to the CMBS and RMBS in the Americas and other asset-backed securities, we determined that due to the lack of observable trades for older vintage and below investment grade securities we continue to limit the reliance on independent pricing service vendors and brokers. As a result, we established internally developed pricing models (Level 3 inputs) using valuation techniques such as discounted cash flow methodologies in order to estimate fair value of these securities and classified them as Level 3. Under the models, we use anticipated cash flows of the security discounted at a risk-adjusted discount rate that incorporates our estimate of credit risk and liquidity risk that a market participant would consider. The cash flows are estimated based on a number of assumptions such as default rate and prepayment speed, as well as seniority of the security. An increase (decrease) in the discount rate or default rate would result in a decrease (increase) in the fair value of CMBS and RMBS in the Americas and other asset-backed securities.

In determining whether a market is active or inactive, we evaluate various factors such as the lack of recent transactions, price quotations that are not based on current information or vary substantially over time or among market makers, a significant increase in implied risk premium, a wide bid-ask spread, significant decline in new issuances, little or no public information (e.g., a principal-to-principal market) and other factors.

For more discussion, see Note 2 of Item 18. Financial Statements.

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**ALLOWANCE FOR DOUBTFUL RECEIVABLES ON DIRECT FINANCING LEASES AND PROBABLE LOAN LOSSES**

The allowance for doubtful receivables on direct financing leases and probable loan losses represents management's estimate of probable losses inherent in the portfolio. This evaluation process is subject to numerous estimates and judgments. The estimate made in determining the allowance for doubtful receivables on direct financing leases and probable loan losses is a critical accounting estimate for all of our segments.

In developing the allowance for doubtful receivables on direct financing leases and probable loan losses, we consider, among other things, the following factors:

business characteristics and financial condition of the obligors;

current economic conditions and trends;

prior charge-off experience;

current delinquencies and delinquency trends; and

value of underlying collateral and guarantees.

We individually develop the allowance for credit losses for impaired loans. For non-impaired loans, including loans that are not individually evaluated for impairment, and direct financing leases, we evaluate prior charge-off experience, segmented by industry of the debtor and the purpose of the loans, and develop the allowance for credit losses based on such prior charge-off experiences as well as current economic conditions.

Impaired loans are individually evaluated for a valuation allowance based on the present value of expected future cash flows, the loan's observable market price or, if the loan is collateral-dependent, the fair value of the collateral securing the loan. For a non-recourse loan, in principle, the estimated collectible amount is determined based on the fair value of the collateral securing the loan, as such loan is collateral-dependent. Further, for certain non-recourse loans, the estimated collectible amount is determined based on the present value of expected future cash flows from each loan. The fair value of the real estate collateral securing the loans is determined using appraisals prepared by independent third-party appraisers or our own staff of qualified appraisers based on recent transactions involving sales of similar assets or other valuation techniques such as discounted cash flows methodologies using future cash flows estimated to be generated from operation of the existing assets or completion of development projects, as appropriate. We generally obtain a new appraisal once a fiscal year. In addition, we periodically monitor circumstances of the real estate collateral and then obtain a new appraisal in situations involving a significant change in economic and/or physical conditions that may materially affect its fair value. For impaired purchased loans, we develop the allowance for credit losses based on the difference between the book value and the estimated collectible amount of such loans.

We charge off doubtful receivables when the likelihood of any future collection is believed to be minimal based upon an evaluation of the relevant debtors' creditworthiness and recoverability from the collateral.

## **IMPAIRMENT OF INVESTMENT IN SECURITIES**

We recognize impairment of investment in securities (except trading securities) as follows.

For available-for-sale securities, we 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, we 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 the issuer's 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 six months.

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For debt securities, where the fair value is less than the amortized cost, we consider whether those securities are other-than-temporarily impaired using all available information about their collectability. We do not consider a debt security to be other-than-temporarily impaired if (1) we do not intend to sell the debt security, (2) it is not more likely than not that we will be required to sell the debt security before recovery of its amortized cost basis and (3) the present value of estimated cash flows will fully cover the amortized cost of the security. On the other hand, we consider a debt security to be other-than-temporarily impaired if any of the above mentioned three conditions are not met. When we deem a debt security to be other-than-temporarily impaired, we recognize the entire difference between the amortized cost and the fair value of the debt securities in earnings if we intend to sell the debt security or it is more likely than not that we will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss. However, if we do not intend to sell the debt security and it is not more likely than not that we will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, we separate the difference between the amortized cost and the fair value of the debt securities into the credit loss component and the non-credit loss component. The credit loss component is recognized in earnings, and the non-credit loss component is recognized in other comprehensive income (loss), net of applicable income taxes.

In assessing whether available-for-sale debt securities are other-than-temporarily impaired, we consider all available information relevant to the collectability of the security, including but not limited to the following factors:

duration and the extent to which the fair value has been less than the amortized cost basis;

continuing analysis of the underlying collateral, age of the collateral, business climate, economic conditions and geographical considerations;

historical loss rates and past performance of similar assets;

trends in delinquencies and charge-offs;

payment structure and subordination levels of the debt security;

changes to the rating of the security by a rating agency; and

subsequent changes in the fair value of the security after the balance sheet date.

For other securities, when we determine the decline in value is other than temporary, we reduce the carrying value of the security to the fair value and charge against income losses related to these other securities in situations.

Determinations of whether a decline in value is other than temporary often involve estimating the outcome of future events that are highly uncertain at the time the estimates are made. Management's judgment, mainly based on objective factors, is required in determining whether there are any fact that an impairment loss should be recognized at the balance sheet date. In view of the diversity and volume of our shareholdings, the highly volatile equity markets make it difficult to determine whether the declines are other than temporary.



If the financial condition of an investee deteriorates, its forecasted performance is not met or actual market conditions are less favorable than those projected by management, we may charge against income additional losses on investment in securities.

The accounting estimates relating to impairment of investment in securities could affect all segments.

#### **IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS THAT HAVE INDEFINITE USEFUL LIVES**

We perform an impairment test for goodwill and any intangible assets that have indefinite useful lives at least annually. Additionally, if events or changes in circumstances indicate that the asset might be impaired, we test for impairment when such events or changes occur.

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We have the option to perform a qualitative assessment to determine whether to calculate the fair value of a reporting unit under the first step of the two-step goodwill impairment test. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then we do not perform the two-step impairment test. However, if we conclude otherwise, we proceed to perform the first step of the two-step impairment test. The first step of goodwill impairment test, used to identify potential impairment, calculates the fair value of the reporting unit and compares the fair value with the carrying amount of the reporting unit. If the fair value of the reporting unit falls below its carrying amount, the second step of the goodwill impairment test is performed to measure the amount of impairment loss. The second step of the goodwill impairment test compares implied fair value of goodwill with its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner used to determine the amount of goodwill recognized in a business combination. We test the goodwill either at the operating segment level or one level below the operating segments. We perform the qualitative assessment for some goodwill but bypass the qualitative assessment and proceed directly to the first step of the two-step impairment test for other goodwill.

We have the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, we conclude that it is not more likely than not that the indefinite-lived asset is impaired, then we do not perform the quantitative impairment test. However, if we conclude otherwise, we calculate the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. We perform the qualitative assessment for some indefinite-lived intangible assets but bypass the qualitative assessment and perform the quantitative assessment for other indefinite-lived intangible assets.

The fair value of a reporting unit under the first step and the second step is determined by estimating the outcome of future events and assumptions made by management. Similarly, estimates and assumptions are used in determining the fair value of any intangible asset that have indefinite useful lives. When necessary, we refer to an evaluation by a third party in determining the fair value of a reporting unit; however, such determinations are often made by using discounted cash flows analyses performed by us. This approach uses numerous estimates and assumptions, including projected future cash flows of a reporting unit, discount rates reflecting the inherent risk and growth rate. If actual cash flows or any items which affect a fair value are less favorable than those projected by management due to economic conditions or our own risk in the reporting unit, we may charge additional losses to income.

The accounting estimates relating to impairment of goodwill and any intangible assets that have indefinite useful lives could affect all segments.

**IMPAIRMENT OF LONG-LIVED ASSETS**

We periodically perform an impairment review for long-lived assets held and used in operations, including tangible assets, intangible assets being amortized and real estate development projects. The assets are tested for recoverability whenever events or changes in circumstances indicate that those assets might be impaired, including, but not limited to, the following:

significant decline in the market value of an asset;

significant deterioration in the usage range and method, or physical condition, of an asset;

significant deterioration of legal regulatory or business environments, including an adverse action or assessment by a relevant regulator;

acquisition and construction costs substantially exceeding estimates;

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continued operating loss or actual or potential loss of cash flows; or

potential loss on a planned sale.

When we determine that assets might be impaired based upon the existence of one or more of the above factors or other factors, we estimate the future cash flows expected to be generated by those assets. Our estimates of the future cash flows are based upon historical trends adjusted to reflect our best estimate of future market and operating conditions. Our estimates also include the expected future periods in which future cash flows are expected. As a result of the recoverability test, when the sum of the estimated future undiscounted cash flows expected to be generated by those assets is less than its carrying amount, and when its fair value is less than its carrying amount, we determine the amount of impairment based on the fair value of those assets.

If the asset is considered impaired, an impairment charge is recorded for the amount by which the carrying amount of the asset exceeds fair value. We determine the fair value using appraisals prepared by independent third-party appraisers or our own staff of qualified appraisers based on recent transactions involving sales of similar assets or other valuation techniques, as appropriate. If actual market and operating conditions under which assets are operated are less favorable than those projected by management, resulting in lower expected future cash flows or shorter expected future periods to generate such cash flows, additional impairment charges may be required. In addition, changes in estimates resulting in lower fair values due to unanticipated changes in business or operating assumptions could adversely affect the valuations of long-lived assets.

The accounting estimates relating to impairment of long-lived assets could affect all segments.

**UNGUARANTEED RESIDUAL VALUE FOR DIRECT FINANCING LEASES AND OPERATING LEASES**

We estimate unguaranteed residual values of leased equipment except real estate, which is explained in *Impairment of Long-lived Assets* described above, when we calculate unearned lease income to be recognized as income over the lease term for direct financing leases and when we calculate depreciation amounts for operating leases that carry inherently higher obsolescence and resale risks. Our estimates are based upon current market values of used equipment and estimates of when and how much equipment will become obsolete, and actual recovery being experienced for similar used equipment. If actual demand for re-lease or actual market conditions of used equipment is less favorable than that projected by management, write-downs of unguaranteed residual value may be required.

The accounting estimates relating to unguaranteed residual value for direct financing leases and operating leases affect mainly the Corporate Financial Services, Maintenance Leasing and Overseas Business segments.

**INSURANCE POLICY LIABILITIES AND DEFERRED POLICY ACQUISITION COSTS**

A certain subsidiary writes life insurance policies to customers. Policy liabilities and policy account balances for future policy benefits are measured using the net level premium method, based on actuarial estimates of the amount of future policyholder benefits. The policies are characterized as long-duration policies and mainly consist of whole life, term life, endowments, medical insurance and individual annuity insurance contracts. For policies other than individual annuity insurance contracts, computation of policy liabilities necessarily includes assumptions about mortality, morbidity, lapse rates, future yields on related investments and other factors applicable at the time the policies are written. The subsidiary continually evaluates the potential for changes in the estimates and assumptions applied in determining policy liabilities, both positive and negative, and uses the results of these evaluations to adjust recorded liabilities as well as underwriting criteria and product offerings. If actual assumption data, such as mortality, morbidity, lapse rates, investment returns and other factors, do not properly reflect future policyholder benefits, we

may establish a premium deficiency reserve.

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A certain subsidiary elected the fair value option for the entire variable annuity and variable life insurance contracts with changes in the fair value recognized in earnings. The changes in fair value of the variable annuity and variable life insurance contracts are linked to the fair value of the investment in securities managed on behalf of variable annuity and variable life policyholders. Additionally, the subsidiary provides minimum guarantees to variable annuity and variable life policyholders under which it is exposed to the risk of compensating losses incurred by the policyholders to the extent contractually required. Therefore, the subsidiary adjusts the fair value of the underlying investments by incorporating changes in fair value of the minimum guarantee risk in the evaluation of the fair value of the entire variable annuity and variable life insurance contracts. The fair value of the minimum guarantee risk is measured using discounted cash flow methodologies based on discount rates, mortality, lapse rates, annuitization rates and other factors.

Certain subsidiaries ceded a portion of its minimum guarantee risk related to variable annuity and variable life insurance contracts to reinsurance companies in order to mitigate the risk and elected the fair value option for the reinsurance contracts with the remaining risk economically hedged through derivative contracts. The reinsurance contracts do not relieve the subsidiary from the obligation as the primary obligor to compensate certain losses incurred by the policyholders, and the default of the reinsurance companies may impose additional losses on the subsidiary.

Policy liabilities and policy account balances for fixed annuity insurance contracts are measured based on the single-premiums plus interest based on expected rate and fair value adjustments relating to the acquisition of a subsidiary, less withdrawals, expenses and other charges.

Certain costs related directly to the successful acquisition of new or renewal insurance contracts, or deferred policy acquisition costs, are deferred and amortized over the respective policy periods in proportion to anticipated premium revenue. These deferred policy acquisition costs consist primarily of first-year commissions, except for recurring policy maintenance costs and certain variable costs and expenses for underwriting policies. Periodically, deferred policy acquisition costs are reviewed to determine whether relevant insurance and investment income are expected to recover the unamortized balance of the deferred acquisition costs. When such costs are expected to be unrecoverable, they are charged to income in that period. If the historical data, such as lapse rates, investment returns, mortality, morbidity, expense margins and surrender charges, which we use to calculate these assumptions, do not properly reflect future profitability, additional amortization may be required.

The accounting estimates relating to insurance policy liabilities and deferred policy acquisition costs affect the Retail segment.

**ASSESSING HEDGE EFFECTIVENESS AND MEASURING INEFFECTIVENESS**

We use foreign currency swap agreements, interest rate swap agreements and foreign exchange contracts for hedging purposes and apply fair value hedge, cash flow hedge or net investment hedge accounting to measure and account for subsequent changes in their fair value.

To qualify for hedge accounting, details of the hedging relationship are formally documented at the inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risks that are to be hedged, the derivative instrument and how effectiveness is being assessed. Derivatives for hedging purposes must be highly effective in offsetting either changes in fair value or cash flows, as appropriate, for the risk being hedged and effectiveness needs to be assessed at the inception of the relationship.

Hedge effectiveness is assessed quarterly on a retrospective and prospective basis. Ineffectiveness is also measured quarterly, with the results recognized in earnings. If specified criteria for the assumption of effectiveness are not met

at hedge inception or upon quarterly testing, then hedge accounting is discontinued. To assess effectiveness and measure ineffectiveness, we use techniques including regression analysis and the cumulative dollar offset method.

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The accounting estimates used to assess hedge effectiveness and measure ineffectiveness could affect our primarily Overseas Business segment.

## **PENSION PLANS**

The determination of our projected benefit obligation and expense for our employee pension benefits is mainly dependent on the size of the employee population, actuarial assumptions, expected long-term rate of return on plan assets and the discount rate used in the accounting.

Pension expense is directly related to the number of employees covered by the plans. Increased employment through internal growth or acquisition would result in increased pension expense.

In estimating the projected benefit obligation, actuaries make assumptions regarding mortality rates, turnover rates, retirement rates and rates of compensation increase. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, affect expense in future periods.

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

We use March 31 as a measurement date for our pension assets and projected benefit obligation balances under all of our material plans. If we were to assume a 1% increase or decrease in the expected long-term rate of return, holding the discount rate and other actuarial assumptions constant, pension expense for fiscal 2018 would decrease or increase, respectively, by approximately ¥2,146 million.

Discount rates are used to determine the present value of our future pension obligations. The discount rates are reflective of rates available on long-term, high-quality fixed-income debt instruments with maturities that closely correspond to the timing of defined benefit payments. Discount rates are determined annually on the measurement date.

If we were to assume a 1% increase in the discount rate, and keep the expected long-term rate of return and other actuarial assumptions constant, pension expense for fiscal 2018 would decrease by approximately ¥2,232 million. If we were to assume a 1% decrease in the discount rate, and keep other assumptions constant, pension expense for fiscal 2018 would increase by approximately ¥2,243 million.

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

## **INCOME TAXES**

In preparing the consolidated financial statements, we make estimates relating to income taxes of the Company and its subsidiaries in each of the jurisdictions in which we operate. The process involves estimating our actual current income tax position together with assessing temporary differences resulting from different treatment of items for income tax reporting and financial reporting purposes. Such differences result in deferred tax assets and liabilities,



which are included within the consolidated balance sheets. We must then assess the likelihood of whether our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that realizability is not more likely than not, we must establish a valuation allowance. When we establish a valuation allowance or increase this allowance during a period, we must include an expense within the provision for income taxes in the consolidated statements of income.

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Significant management judgments are required in determining our provision for income taxes, current income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our deferred tax assets. We file tax returns in Japan and certain foreign tax jurisdictions and 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 tax positions that meet the recognition threshold at the largest amount of tax benefit that is greater than 50 percent likely to be realized upon settlement with the taxing authority. Management judgments, including the interpretations about the application of the complex tax laws of Japan and certain foreign tax jurisdictions, are required in the process of evaluating tax positions; therefore, these judgments may differ from the actual results. We have recorded a valuation allowance due to uncertainties about our ability to utilize certain deferred tax assets, primarily certain net operating loss carryforwards, before they expire. Although utilization of the net operating loss carryforwards is not assured, management believes it is more likely than not that all of the deferred tax assets, net of the valuation allowance, will be realized. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. If actual results differ from these estimates or if we adjust these estimates in future periods, we may need to establish additional valuation allowances, which could materially impact the consolidated financial position and results of operations.

**DISCUSSION WITH AND REVIEW BY THE AUDIT COMMITTEE**

Our management discussed the development and selection of each critical accounting estimate with our Audit Committee in June 2018.

**FAIR VALUE OF INVESTMENT AND RENTAL PROPERTY**

We own real estate such as rental office buildings, rental logistics centers, rental commercial facilities other than office buildings, rental condominiums and land which is utilized for development as operating leases. A large portion of our real estate held for investment and rental is located around major cities in Japan such as Tokyo. The following table sets forth the carrying amount of investment and rental property as of the beginning and end of fiscal 2018, as well as the fair value as of the end of fiscal 2018.

Balance at April 1, 2017	Year ended March 31, 2018		Balance at March 31, 2018	Fair value at March 31, 2018* <sup>2</sup>
	Change amount	Carrying amount* <sup>1</sup>		
¥425,328	¥(53,245)	(Millions of yen)	¥372,083	¥442,205

\*<sup>1</sup> Carrying amounts are stated as cost less accumulated depreciation.

\*<sup>2</sup> Fair value is either obtained from appraisal reports by external qualified appraisers, calculated by internal appraisal department in accordance with Real estate appraisal standards, or calculated by other reasonable internal calculation utilizing similar methods.

Investment and rental property revenue and expense for fiscal 2018 were as follows:

	<b>Year Ended March 31, 2018</b>		
<b>Revenue*1</b>	<b>Expense*2</b>		<b>Net</b>
	<b>(Millions of yen)</b>		
¥70,442	¥42,535		¥27,907

\*1 Revenue consists of revenue from leases and gains on sales of real estate under operating leases. Revenue from leases is composed of real estate-related revenues from Operating leases and Life insurance premiums and related investment income.

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\*2 Expense consists of costs related to the above revenue such as depreciation expense, repair cost, insurance cost, tax and duty which are included in Costs of operating leases, and Write-downs of long-lived assets.

**RESULTS OF OPERATIONS**

**GUIDE TO OUR CONSOLIDATED STATEMENT OF INCOME**

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

Our consolidated results of operations are presented in the accompanying financial statements with sub-categorization of revenues and expenses designed to enable the reader to better understand the diversified operating activities contributing to our overall operating performance.

As further described in Item 4. Information on the Company, after developing the Japanese leasing market in 1964, we extended the scope of our operations into various types of businesses which have become significant contributors to our consolidated operating results. Our initial leasing business has expanded into the provision of broader financial services, including direct lending to our lessees and other customers. Initial direct lending broadened into diversified finance such as housing loans, loans secured by real estate, unsecured loans and non-recourse loans. Through our lending experience, we developed a loan servicing business and a loan securitization business. Through experience gained by our focusing on real estate as collateral for loans, we also developed our real estate leasing, development and management operations.

Furthermore, we also expanded our business by adding securities-related operations, to generate capital gains. Thereafter, we established and acquired a number of subsidiaries and affiliates in Japan and overseas to expand our operations into businesses such as banking, life insurance, real estate and asset management. The Investment and Operation Headquarters selectively invests in companies and actively seeks to fulfill the needs of companies involved in or considering M&A activity, including, among other things, management buyouts, privatization or carve-outs of subsidiaries or business units and business succession.

The diversified nature of our operations is reflected in our presentation of operating results through the categorization of our revenues and expenses to align with operating activities. We categorize our revenues into finance revenues, gains on investment securities and dividends, operating leases, life insurance premiums and related investment income, sales of goods and real estate and services income, and these revenues are summarized into a subtotal of Total revenues consisting of our Operating Income on our consolidated statements of income.

The following provides supplemental explanation of certain account captions on our consolidated statements of income:

Finance revenues include primarily direct financing leases, interest on loans and interest on investment securities because we believe that capital we deploy is fungible and, whether used to provide financing in the form of loans and leases or through investment in debt securities, the decision to deploy the capital is a banking-type operation that shares the common objective of managing earning assets to generate a positive spread over our cost of borrowings.

Securities investment activities originated by the Company were extended to certain group companies, including our subsidiaries operating in the Americas.



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Sales of goods and real estate consists of revenues from sales of real estate and various types of goods, including precious metals and jewels.

Services income consists of revenues derived from various operations that are considered a part of our recurring operating activities, such as asset management and servicing, real estate management and contract work, facilities management related business, commissions for advisory services, automobile related business, and environment and energy related business.

Similar to our revenues, we categorize our expenses based on our diversified operating activities. Total expenses includes mainly interest expense, costs of operating leases, life insurance costs, costs of goods and real estate sold, services expense and selling, general and administrative expenses.

Services expense is directly associated with the sales and revenues separately reported within services income. Interest expense is based on monies borrowed mainly to fund revenue-generating assets, including to purchase equipment for leases, extend loans and invest in securities and real estate operations. We also consider the principal part of selling, general and administrative expenses to be directly related to the generation of revenues. Therefore, they have been included within Total expenses deducted to derive Operating Income. We similarly view the provision for doubtful receivables and probable loan losses to be directly related to our finance activities and accordingly have included it within Total expenses. As our principal operations consist of providing financial products and/or finance-related services to our customers, these expenses are directly related to the potential risks and changes in these products and services. See Year Ended March 31, 2018 Compared to Year Ended March 31, 2017 and Year Ended March 31, 2017 Compared to Year Ended March 31, 2016.

We have historically reflected write-downs of long-lived assets under Operating Income as related assets, primarily real estate assets, representing significant operating assets under management or development. Accordingly, the write-downs were considered to represent an appropriate component of Operating Income derived from the related real estate investment activities. Similarly, as we have identified investment in securities to represent an operating component of our financing activities, write-downs of securities are presented under Operating Income.

We believe that our financial statement presentation, as explained above, with the expanded presentation of revenues and expenses, aids in the comprehension of our diversified operating activities in Japan and overseas and supports the fair presentation of our consolidated statements of income.

**YEAR ENDED MARCH 31, 2018 COMPARED TO YEAR ENDED MARCH 31, 2017****Performance Summary****Financial Results**

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except ratios, per Share data and percentages)			
Total revenues	¥ 2,678,659	¥ 2,862,771	¥ 184,112	7
Total expenses	2,349,435	2,526,576	177,141	8
Income before Income Taxes	424,965	435,501	10,536	2
Net Income Attributable to ORIX Corporation Shareholders	273,239	313,135	39,896	15

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Earnings per Share (Basic)	208.88	244.40	35.52	17
(Diluted)	208.68	244.15	35.47	17
ROE*1	11.3	12.1	0.8	
ROA*2	2.46	2.76	0.30	

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\*1 ROE is the ratio of Net Income Attributable to ORIX Corporation Shareholders for the period to average ORIX Corporation Shareholders' Equity based on fiscal year beginning and ending balances.

\*2 ROA is the ratio of Net Income Attributable to ORIX Corporation Shareholders for the period to average Total Assets based on fiscal year beginning and ending balances.

Total revenues for fiscal 2018 increased 7% to ¥2,862,771 million compared to ¥2,678,659 million during fiscal 2017. Life insurance premiums and related investment income in the life insurance business increased due to an increase in life insurance premiums from an increase in in-force policies, and an increase in investment income from assets under variable annuity and variable life insurance contracts following the market's recovery. In addition, sales of goods and real estate increased due primarily to revenues generated by subsidiaries in the principal investment business, and services income increased due primarily to service expansion in the asset management business and the environment and energy business.

Total expenses for fiscal 2018 increased 8% to ¥2,526,576 million compared to ¥2,349,435 million during fiscal 2017. Life insurance costs increased due to an increase in a provision of liability reserve in line with the aforementioned increase in in-force policies and an increase in investment income. In addition, costs of goods and real estate sold and services expense increased in line with the aforementioned increased revenues.

Equity in net income of affiliates for fiscal 2018 increased due mainly to the recognition of significant gains on sales of investments in real estate joint ventures compared to fiscal 2017.

As a result of the foregoing, income before income taxes for fiscal 2018 increased 2% to ¥435,501 million compared to ¥424,965 million during fiscal 2017. In addition, due to the impact from tax reform in the United States, net income attributable to ORIX Corporation shareholders increased 15% to ¥313,135 million compared to ¥273,239 million during fiscal 2017.

**Balance Sheet data**

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen except ratios, per share and percentages)			
Total Assets	¥ 11,231,895	¥ 11,425,982	¥ 194,087	2
(Segment assets)	8,956,872	9,017,250	60,378	1
Total Liabilities	8,577,722	8,619,688	41,966	0
(Long- and Short-term debt)	4,138,451	4,133,258	(5,193)	(0)
(Deposits)	1,614,608	1,757,462	142,854	9
ORIX Corporation Shareholders				
Equity	2,507,698	2,682,424	174,726	7
ORIX Corporation Shareholders				
Equity per share	1,925.17	2,095.64	170.47	9
ORIX Corporation Shareholders				
Equity ratio*	22.3%	23.5%	1.2%	
D/E ratio (Debt-to-equity ratio)	1.7x	1.5x	(0.2)x	
(Long- and Short-term debt)				



(excluding deposits) / ORIX  
Corporation Shareholders Equity)

\* ORIX Corporation Shareholders Equity ratio is the ratio as of the period end of ORIX Corporation Shareholders Equity to total assets.

Total assets increased 2% to ¥11,425,982 million compared to ¥11,231,895 million as of March 31, 2017. Investment in securities decreased due primarily to sales of investment in securities as well as the surrender of variable annuity and variable life insurance contracts in the life insurance business. On the other hand, property under facility operations and investment in affiliates increased due primarily to the new large-scale investments in the environment and energy business. In addition, segment assets increased 1% to ¥9,017,250 million compared to the balance as of March 31, 2017.

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We manage the balance of our interest-bearing liabilities at an appropriate level taking into account the condition of our assets and liquidity on-hand as well as the domestic and overseas financial environments. As a result, long-term debt decreased, and short-term debt and deposits increased compared to the balance as of March 31, 2017. In addition, policy liabilities and policy account balances decreased due primarily to the aforementioned surrender of contracts.

Shareholders' equity increased 7% to ¥2,682,424 million compared to the balance as of March 31, 2017 due primarily to an increase in retained earnings, despite a decrease due to share repurchases.

**Details of Operating Results**

The following is a discussion of certain items in the consolidated statements of income, operating assets in the consolidated balance sheets and other selected financial information, including on a segment by segment basis.

**Segment Information**

Our business is organized into six segments that are based on major products, nature of services, customer base, and management organizations to facilitate strategy formulation, resource allocation and portfolio rebalancing at the segment level. Our six business segments are: Corporate Financial Services, Maintenance Leasing, Real Estate, Investment and Operation, Retail and Overseas Business.

Financial information about our operating segments reported below is separately available to, and evaluated regularly by, management in deciding how to allocate resources and in assessing performance. We evaluate the performance of these segments based on income before income taxes, net income attributable to the noncontrolling interests and net income attributable to the redeemable noncontrolling interests before applicable tax effect. Tax expenses are not included in segment profits.

For a description of the business activities of our segments, see Item 4. Information on the Company Business Segments. See Note 33 of Item 18. Financial Statements for additional segment information, a discussion of how we prepare our segment information and the reconciliation of segment totals to consolidated financial statement amounts.

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Segment Revenues:</b>				
Corporate Financial Services	¥ 102,979	¥ 115,712	¥ 12,733	12
Maintenance Leasing	270,615	275,740	5,125	2
Real Estate	212,050	172,948	(39,102)	(18)
Investment and Operation	1,271,973	1,402,313	130,340	10
Retail	368,665	428,697	60,032	16
Overseas Business	458,912	477,420	18,508	4
Segment Total	2,685,194	2,872,830	187,636	7
Difference between Segment Total and Consolidated Amounts	(6,535)	(10,059)	(3,524)	

Consolidated Amounts	¥ 2,678,659	¥ 2,862,771	¥ 184,112	7
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	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Segment Profits:</b>				
Corporate Financial Services	¥ 38,032	¥ 49,275	¥ 11,243	30
Maintenance Leasing	39,787	40,162	375	1
Real Estate	72,841	62,372	(10,469)	(14)
Investment and Operation	85,000	96,120	11,120	13
Retail	72,865	74,527	1,662	2
Overseas Business	112,312	106,602	(5,710)	(5)
Segment Total	420,837	429,058	8,221	2
Difference between Segment Total and Consolidated Amounts	4,128	6,443	2,315	56
Consolidated Amounts	¥ 424,965	¥ 435,501	¥ 10,536	2

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Segment Assets:</b>				
Corporate Financial Services	¥ 1,032,152	¥ 961,901	¥ (70,251)	(7)
Maintenance Leasing	752,513	818,201	65,688	9
Real Estate	657,701	620,238	(37,463)	(6)
Investment and Operation	768,675	847,677	79,002	10
Retail	3,291,631	3,174,505	(117,126)	(4)
Overseas Business	2,454,200	2,594,728	140,528	6
Segment Total	8,956,872	9,017,250	60,378	1
Difference between Segment Total and Consolidated Amounts	2,275,023	2,408,732	133,709	6
Consolidated Amounts	¥ 11,231,895	¥ 11,425,982	¥ 194,087	2

**Corporate Financial Services Segment**

This segment is involved in loan, leasing and fee business.

In this segment, we are focusing on fee businesses related to life insurance, environment and energy, auto leasing related products and services provided to domestic small- and medium-sized enterprise customers while engaging in highly competitive businesses such as leasing and lending with a focus on profitability. We also aim to grow our profit by maximizing synergy potential with Yayoi, the software service provider in the group, and by utilizing domestic

network to create new businesses.

Based on the aforementioned strategy, segment revenues increased 12% to ¥115,712 million compared to ¥102,979 million during the previous fiscal year due to an increase in gains on sales of securities, an increase in services income resulting from our stable fee businesses provided to domestic small- and medium-sized enterprise customers and from revenue in line with an increase in contracts of Yayoi, despite a decrease in finance revenues from decreases in average investment balance in direct financing leases and installment loans.

Segment expenses remained at the same level as the previous fiscal year.

As a result of the foregoing, segment profits increased 30% to ¥49,275 million compared to ¥38,032 million during the previous fiscal year.

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Segment assets decreased 7% to ¥961,901 million compared to the end of the previous fiscal year due to decreases in investment in direct financing leases, installment loans and investment in securities.

Asset efficiency improved compared to the previous fiscal year due to an increase of stable profit from fee businesses with more variety of services and an increase in gains on sales of securities. Furthermore, we started to build a new domestic distribution network of fruits and vegetables and commenced an online lending service for small businesses to explore new business areas.

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 30,153	¥ 28,390	¥ (1,763)	(6)
Operating leases	25,626	23,355	(2,271)	(9)
Services income	40,595	42,503	1,908	5
Gains on investment securities and dividends, and other	6,605	21,464	14,859	225
<b>Total Segment Revenues</b>	<b>102,979</b>	<b>115,712</b>	<b>12,733</b>	<b>12</b>
Interest expense	6,032	4,893	(1,139)	(19)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	(76)	1,218	1,294	
Other	62,057	62,612	555	1
<b>Total Segment Expenses</b>	<b>68,013</b>	<b>68,723</b>	<b>710</b>	<b>1</b>
<b>Segment Operating Income</b>	<b>34,966</b>	<b>46,989</b>	<b>12,023</b>	<b>34</b>
Equity in Net income (Loss) of Affiliates, and others	3,066	2,286	(780)	(25)
<b>Segment Profits</b>	<b>¥ 38,032</b>	<b>¥ 49,275</b>	<b>¥ 11,243</b>	<b>30</b>

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 433,929	¥ 415,301	¥ (18,628)	(4)
Installment loans	398,558	363,993	(34,565)	(9)
Investment in operating leases	30,114	26,350	(3,764)	(12)
Investment in securities	34,773	19,208	(15,565)	(45)
Property under facility operations	13,034	15,075	2,041	16

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Inventories	51	49	(2)	(4)
Advances for investment in operating leases	80	203	123	154
Investment in affiliates	18,392	16,845	(1,547)	(8)
Advances for property under facility operations	139	720	581	418
Goodwill and other intangible assets acquired in business combinations	103,082	104,157	1,075	1
<b>Total Segment Assets</b>	<b>¥ 1,032,152</b>	<b>¥ 961,901</b>	<b>¥ (70,251)</b>	<b>(7)</b>

***Maintenance Leasing Segment***

This segment consists of automobile leasing and rentals, car-sharing, and test and measurement instruments and IT-related equipment rentals and leasing.

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In the automobile related businesses which cover a large part of this segment, we aim to increase market share by targeting small- and medium-sized enterprises and individuals as well as large corporate customers by leveraging our industry-leading number of fleets under management and our competitive advantages to provide one-stop automobile-related services. Furthermore, we will also develop new products and services to make the change of industrial structure into new business opportunities. In the rental business, we strengthened our engineering solution businesses by developing new services for robots and three-dimensional (3D) printing.

Based on the aforementioned strategy, segment revenues increased 2% to ¥275,740 million compared to ¥270,615 million during the previous fiscal year due to increases in finance revenues and operating leases revenues in line with an increased average segment asset balance in the automobile leasing business and an increase in services income.

Segment expenses increased in line with the aforementioned revenue increases.

As a result of the foregoing, segment profits increased 1% to ¥40,162 million compared to ¥39,787 million during the previous fiscal year.

Segment assets increased 9% to ¥818,201 million compared to the end of the previous fiscal year due to an acquisition of Yodogawa Transformer Co. Ltd., the largest renter of power receiving and transforming facilities and equipment, and an increase in new auto-leases in the automobile leasing business.

In auto-related business, the gain on sales of used cars decreased while assets of new auto-leases increased. Although asset efficiency decreased compared to the previous fiscal year due to the aforementioned reason, we have continuously maintained stable profitability. In rental business, we plan to continue to expand our product lineups through the aforementioned acquisition and pursue business synergies.

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 13,029	¥ 14,059	¥ 1,030	8
Operating leases	187,219	189,592	2,373	1
Services income	66,314	67,810	1,496	2
Sales of goods and real estate, and other	4,053	4,279	226	6
<b>Total Segment Revenues</b>	<b>270,615</b>	<b>275,740</b>	<b>5,125</b>	<b>2</b>
Interest expense	3,360	3,049	(311)	(9)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	258	222	(36)	(14)
Other	227,178	232,104	4,926	2
<b>Total Segment Expenses</b>	<b>230,796</b>	<b>235,375</b>	<b>4,579</b>	<b>2</b>
<b>Segment Operating Income</b>	<b>39,819</b>	<b>40,365</b>	<b>546</b>	<b>1</b>



Equity in Net income (Loss) of Affiliates, and others		(32)		(203)		(171)	
Segment Profits	¥	39,787	¥	40,162	¥	375	1

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	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 277,480	¥ 305,041	¥ 27,561	10
Investment in operating leases	469,824	491,369	21,545	5
Investment in securities	1,322	560	(762)	(58)
Property under facility operations	803	904	101	13
Inventories	445	461	16	4
Advances for investment in operating leases	335	197	(138)	(41)
Investment in affiliates	1,880	1,996	116	6
Goodwill and other intangible assets acquired in business combinations	424	17,673	17,249	
<b>Total Segment Assets</b>	<b>¥ 752,513</b>	<b>¥ 818,201</b>	<b>¥ 65,688</b>	<b>9</b>

**Real Estate Segment**

This segment consists of real estate development and rental, facility operation, REIT asset management, and real estate investment and advisory services.

In this segment, we aim to promote portfolio rebalancing by selling rental properties into favorable markets and also to expand the scale of our asset management business such as REIT and real estate investment advisory services to construct a portfolio that is less affected by changes in the real estate market. We also aim to gain stable profits by accumulating expertise through the operation of various facilities such as hotels and Japanese inns and to develop new businesses by taking advantage of the value chain to the extent of real estate development and rental, asset management and facility operations.

Based on the aforementioned strategy, segment revenues decreased 18% to ¥172,948 million compared to ¥212,050 million during the previous fiscal year due primarily to a decrease in operating leases revenues in line with a decrease in gains on sales of rental property and a decrease in average asset balance in operating leases, despite an increase in services income from facilities operations.

Segment expenses remained at the same level as the previous fiscal year due to a decrease in costs of operating leases despite an increase in services expense from facilities operations.

As a result of the foregoing, segment profits decreased 14% to ¥62,372 million compared to ¥72,841 million during the previous fiscal year, despite an increase in equity in net income of affiliates in line with the recognition of significant gains on sales of investments in real estate joint ventures.

Segment assets decreased 6% to ¥620,238 million compared to the end of the previous fiscal year due primarily to a decrease in investment in operating leases, which resulted from sales of rental properties.

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Asset efficiency decreased compared to the previous fiscal year due to the absence of large capital gain as recorded in the previous fiscal year, despite the increased profit in asset management business and the gain on sales as a result of portfolio rebalance as a market remained favorable.

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 2,319	¥ 2,055	¥ (264)	(11)
Operating leases	88,153	46,938	(41,215)	(47)
Services income	112,624	116,064	3,440	3
Sales of goods and real estate, and other	8,954	7,891	(1,063)	(12)
<b>Total Segment Revenues</b>	<b>212,050</b>	<b>172,948</b>	<b>(39,102)</b>	<b>(18)</b>
Interest expense	3,085	2,224	(861)	(28)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	3,386	4,180	794	23
Other	136,629	136,775	146	0
<b>Total Segment Expenses</b>	<b>143,100</b>	<b>143,179</b>	<b>79</b>	<b>0</b>
<b>Segment Operating Income</b>	<b>68,950</b>	<b>29,769</b>	<b>(39,181)</b>	<b>(57)</b>
<b>Equity in Net income (Loss) of Affiliates, and others</b>	<b>3,891</b>	<b>32,603</b>	<b>28,712</b>	<b>738</b>
<b>Segment Profits</b>	<b>¥ 72,841</b>	<b>¥ 62,372</b>	<b>¥ (10,469)</b>	<b>(14)</b>
	(Millions of yen, except percentage data)			
	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
Investment in direct financing leases	¥ 27,523	¥ 33,589	¥ 6,066	22
Installment loans	0	312	312	
Investment in operating leases	298,184	247,001	(51,183)	(17)
Investment in securities	3,552	2,988	(564)	(16)
Property under facility operations	185,023	195,463	10,440	6
Inventories	2,567	2,850	283	11
Advances for investment in operating leases	18,634	20,524	1,890	10
Investment in affiliates	99,347	86,666	(12,681)	(13)
Advances for property under facility operations	11,196	19,351	8,155	73
Goodwill and other intangible assets acquired in business combinations	11,675	11,494	(181)	(2)
<b>Total Segment Assets</b>	<b>¥ 657,701</b>	<b>¥ 620,238</b>	<b>¥ (37,463)</b>	<b>(6)</b>

***Investment and Operation Segment***

This segment consists of environment and energy business, principal investment, loan servicing (asset recovery), and concession.

In environment and energy-related business, we aim to increase services revenue by promoting renewable energy business and electric power retailing business as a comprehensive energy service provider. In our solar power business, we have secured one gigawatt of solar power capacity and are operating projects that generate approximately 670 megawatts of electricity as of March 31, 2018, making us one of the largest solar power producers in Japan. We will accelerate renewable energy business overseas by utilizing the expertise gained in the domestic market. In the principal investment business, we aim to earn stable profits from investees and sustainable gains on sales through rebalancing our portfolio. We will diversify our investment methods and

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expand our target zone. Regarding concession business, we will strengthen the operations of three airports, Kansai International Airport, Osaka International Airport and Kobe Airport, and will also proactively engage in the operation of public infrastructures other than airports.

Based on the aforementioned strategy, segment revenues increased 10% to ¥1,402,313 million compared to ¥1,271,973 million during the previous fiscal year due to increases in sales of goods from subsidiaries in the principal investment business and services income from the environment and energy business.

Segment expenses increased compared to the previous fiscal year in line with the aforementioned revenues expansion.

As a result of the foregoing and due to an increase in equity in net income of affiliates, segment profits increased 13% to ¥96,120 million compared to ¥85,000 million during the previous fiscal year.

Segment assets increased 10% to ¥847,677 million compared to the end of the previous fiscal year due primarily to an investment to Ormat, the U.S. geothermal energy company in the environment and energy business.

Although the gain on sales in private equity investment decreased because of the absence of large gain on sales as recorded in the previous fiscal year, the operation rate of solar power generation projects has improved and profit from concession business has steadily increased. As a result, asset efficiency improved compared to the previous fiscal year. Furthermore, we will engage in geothermal energy projects in Japan and other countries in Asia with Ormat in which we have newly invested.

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 10,680	¥ 8,982	¥ (1,698)	(16)
Gains on investment securities and dividends	12,961	7,630	(5,331)	(41)
Sales of goods and real estate	938,438	1,048,684	110,246	12
Services income	299,709	326,526	26,817	9
Operating leases, and other	10,185	10,491	306	3
<b>Total Segment Revenues</b>	<b>1,271,973</b>	<b>1,402,313</b>	<b>130,340</b>	<b>10</b>
Interest expense	4,870	5,632	762	16
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	6,760	(836)	(7,596)	
Other	1,212,681	1,345,318	132,637	11
<b>Total Segment Expenses</b>	<b>1,224,311</b>	<b>1,350,114</b>	<b>125,803</b>	<b>10</b>
<b>Segment Operating Income</b>	<b>47,662</b>	<b>52,199</b>	<b>4,537</b>	<b>10</b>
Equity in Net income (Loss) of Affiliates, and others	37,338	43,921	6,583	18
<b>Segment Profits</b>	<b>¥ 85,000</b>	<b>¥ 96,120</b>	<b>¥ 11,120</b>	<b>13</b>



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	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 26,016	¥ 25,497	¥ (519)	(2)
Installment loans	56,435	48,131	(8,304)	(15)
Investment in operating leases	25,434	30,158	4,724	19
Investment in securities	51,474	32,563	(18,911)	(37)
Property under facility operations	187,674	208,106	20,432	11
Inventories	112,798	101,518	(11,280)	(10)
Advances for investment in operating leases	1,237	1,261	24	2
Investment in affiliates	71,481	170,449	98,968	138
Advances for property under facility operations	55,180	44,901	(10,279)	(19)
Goodwill and other intangible assets acquired in business combinations	180,946	185,093	4,147	2
<b>Total Segment Assets</b>	<b>¥ 768,675</b>	<b>¥ 847,677</b>	<b>¥ 79,002</b>	<b>10</b>

**Retail Segment**

This segment consists of life insurance, banking and card loan.

In life insurance business, we aim to increase the number of policies in-force and revenues from insurance premiums by offering simple-to-understand products through sales agencies and online. In the banking business, we aim to increase finance revenues by increasing balance of outstanding housing loans which is a core of our banking business. In card loan business, we aim to increase revenues from guarantee fees by expanding guarantees against loans disbursed by other financial institutions in addition to increase finance revenues by making loans directly by utilizing our experience and expertise in credit screening while taking into account the amendments to the Money Lending Business Act for the purpose of reducing over-indebtedness.

Based on the aforementioned strategy, segment revenues increased 16% to ¥428,697 million compared to ¥368,665 million during the previous fiscal year due mainly to an increase in life insurance premiums in line with an increase in in-force policies, and an increase in investment income from assets under variable annuity and variable life insurance contracts in the life insurance business due to the market's recovery.

Segment expenses increased compared to the previous fiscal year due to an increase in a provision of liability reserve in line with the aforementioned increase in in-force policies and an increase in investment income.

As a result of the foregoing, segment profits increased 2% to ¥74,527 million compared to ¥72,865 million during the previous fiscal year.

Segment assets decreased 4% to ¥3,174,505 million compared to the end of the previous fiscal year due primarily to sales of investment in securities as well as the surrender of variable annuity and variable life insurance contracts in the life insurance business, despite an increase in installment loans in the banking business.

Asset efficiency improved compared to the previous fiscal year due to the increase in life insurance premiums and financial revenues in addition to the decrease in assets by cancellation of variable annuity and variable life insurance contracts.





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	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 59,177	¥ 61,222	¥ 2,045	3
Life insurance premiums and related investment income	297,886	352,974	55,088	18
Services income, and other	11,602	14,501	2,899	25
Total Segment Revenues	368,665	428,697	60,032	16
Interest expense	4,041	4,026	(15)	(0)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	10,109	11,245	1,136	11
Other	281,663	338,906	57,243	20
Total Segment Expenses	295,813	354,177	58,364	20
Segment Operating Income	72,852	74,520	1,668	2
Equity in Net income (Loss) of Affiliates, and others	13	7	(6)	(46)
Segment Profits	¥ 72,865	¥ 74,527	¥ 1,662	2

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 518	¥ 208	¥ (310)	(60)
Installment loans	1,718,655	1,852,761	134,106	8
Investment in operating leases	46,243	44,319	(1,924)	(4)
Investment in securities	1,509,180	1,260,291	(248,889)	(16)
Investment in affiliates	810	702	(108)	(13)
Goodwill and other intangible assets acquired in business combinations	16,225	16,224	(1)	(0)
Total Segment Assets	¥ 3,291,631	¥ 3,174,505	¥ (117,126)	(4)

**Overseas Business Segment**

This segment consists of leasing, loan, bond investment, asset management and aircraft- and ship-related operations.

In the Americas, we aim to expand our business areas by engaging in fee business such as equity investment, fund management in addition to corporate finance and investment in bonds. In our aircraft-related operations, we are focusing on the profit opportunities within operating lease, sales of used aircraft to domestic and overseas investors, asset management services for the aircrafts owned by others, backed by the growing demand of passengers and aircrafts. We will also aim to promote the expansion of functionality and diversification in our overseas group

companies.

Based on the aforementioned strategy, segment revenues increased 4% to ¥477,420 million compared to ¥458,912 million during the previous fiscal year due to increases in services income in the asset management business, operating leases revenues in our aircraft-related operations including gains on sales of aircraft and finance revenues in the Americas, despite a decrease in sales of goods resulting from the sale of a subsidiary during the previous fiscal year.

Segment expenses decreased compared to the previous fiscal year due primarily to a decrease in costs of goods sold resulting from the aforementioned sale of a subsidiary.

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As a result of the foregoing and due to decreases in equity in net income of affiliates and gains on sales of subsidiaries and affiliates and liquidation losses, net, segment profits decreased 5% to ¥106,602 million compared to ¥112,312 million in the previous fiscal year.

Segment assets increased 6% to ¥2,594,728 million compared to the end of the previous fiscal year due to increases in investment in operating leases in our aircraft-related operations, installment loans in the Americas and Asia, and the recognition of goodwill and other intangible assets in line with the acquisition of a new subsidiary, despite a decrease in investment in securities.

Asset efficiency decreased compared to the previous fiscal year due to the loss on sales of affiliates and impairment loss in investee. Furthermore, we have expanded our fee businesses through the acquisition of mortgage servicing company in the Americas. We have also made several investments in infrastructure related businesses in Americas as well as fintech companies in China.

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 81,251	¥ 96,368	¥ 15,117	19
Gains on investment securities and dividends	13,334	17,513	4,179	31
Operating leases	88,474	111,367	22,893	26
Services income	216,720	238,615	21,895	10
Sales of goods and real estate, and other	59,133	13,557	(45,576)	(77)
<b>Total Segment Revenues</b>	<b>458,912</b>	<b>477,420</b>	<b>18,508</b>	<b>4</b>
Interest expense	36,535	49,477	12,942	35
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	18,215	8,149	(10,066)	(55)
Other	332,024	323,141	(8,883)	(3)
<b>Total Segment Expenses</b>	<b>386,774</b>	<b>380,767</b>	<b>(6,007)</b>	<b>(2)</b>
<b>Segment Operating Income</b>	<b>72,138</b>	<b>96,653</b>	<b>24,515</b>	<b>34</b>
Equity in Net income (Loss) of Affiliates, and others	40,174	9,949	(30,225)	(75)
<b>Segment Profits</b>	<b>¥ 112,312</b>	<b>¥ 106,602</b>	<b>¥ (5,710)</b>	<b>(5)</b>

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 357,732	¥ 368,721	¥ 10,989	3
Installment loans	457,393	520,137	62,744	14
Investment in operating leases	420,207	490,953	70,746	17

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Investment in securities	465,899	413,977	(51,922)	(11)
Property under facility operations and servicing assets	29,705	43,995	14,290	48
Inventories	1,811	5,923	4,112	227
Advances for investment in operating leases	9,024	9,487	463	5
Investment in affiliates	332,154	314,569	(17,585)	(5)
Advances for property under facility operations	39	0	(39)	0
Goodwill and other intangible assets acquired in business combinations	380,236	426,966	46,730	12
<b>Total Segment Assets</b>	<b>¥ 2,454,200</b>	<b>¥ 2,594,728</b>	<b>¥ 140,528</b>	<b>6</b>

**Table of Contents****Revenues, New Business Volumes and Investments****Finance revenues**

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			

**Finance revenues:**

Finance revenues	¥	200,584	¥	214,104	¥	13,520	7
Finance revenues increased 7% to ¥214,104 million for fiscal 2018 compared to fiscal 2017 primarily due to an increase in average balance of installment loans.							

**Direct financing leases**

	As of and for the year ended		Change	
	March 31,	March 31,	Amount	Percent (%)
	2017	2018	(Millions of yen, except percentage data)	

**Direct financing leases:**

New equipment acquisitions	¥	512,740	¥	472,070	¥	(40,670)	(8)
Japan		312,788		264,953		(47,835)	(15)
Overseas		199,952		207,117		7,165	4
Investment in direct financing leases		1,204,024		1,194,888		(9,136)	(1)

New equipment acquisitions related to direct financing leases decreased 8% to ¥472,070 million compared to fiscal 2017. In Japan, new equipment acquisitions decreased 15% in fiscal 2018 compared to fiscal 2017 due to a decreasing trend. In overseas, new equipment acquisitions increased 4% in fiscal 2018 compared to fiscal 2017.

Investment in direct financing leases as of March 31, 2018 decreased 1% to ¥1,194,888 million compared to March 31, 2017 due to decreases in new equipment acquisitions described above.

As of March 31, 2018, no single lessee represented more than 1% of the balance of direct financing leases. As of March 31, 2018, 69% of our direct financing leases were to lessees in Japan, while 31% were to overseas lessees. Approximately 6% of our direct financing leases were to lessees in Hong Kong and Malaysia. No other overseas country represented more than 5% of our total portfolio of direct financing leases.

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			

<b>Investment in direct financing leases by category:</b>							
Transportation equipment	¥	496,335	¥	489,687	¥	(6,648)	(1)
Industrial equipment		244,606		240,646		(3,960)	(2)
Electronics		158,726		154,522		(4,204)	(3)
Information-related and office equipment		102,078		105,040		2,962	3
Commercial services equipment		54,389		53,065		(1,324)	(2)
Other		147,890		151,928		4,038	3
 Total	¥	 1,204,024	¥	 1,194,888	¥	 (9,136)	 (1)

For further information, see Note 5 of Item 18. Financial Statements.

**Table of Contents****Installment loans**

	As of and for the year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Installment loans:</b>				
New loans added	¥ 1,309,488	¥ 1,397,467	¥ 87,979	7
Japan	972,361	945,436	(26,925)	(3)
Overseas	337,127	452,031	114,904	34
Installment loans	2,815,706	2,823,769	8,063	0

Note: The balance of installment loans related to our life insurance operations is included in installment loans in our consolidated balance sheets; however, income and losses on these loans are recorded in life insurance premiums and related investment income in our consolidated statements of income.

New loans added increased 7% to ¥1,397,467 million compared to fiscal 2017. In Japan, new loans added have shown a downward trend, and decreased 3% to ¥945,436 million in fiscal 2018 compared to fiscal 2017. In overseas, new loans added increased 34% to ¥452,031 million compared to fiscal 2017 due to increased lending activity in the Americas and Asia.

The balance of installment loans as of March 31, 2018 remained flat at ¥2,823,769 million compared to March 31, 2017, primarily due to a decrease in loans for entertainment companies which are included in commercial, industrial and other companies, offsetting an increase of housing loans.

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Installment loans:</b>				
<b>Consumer borrowers in Japan</b>				
Housing loans	¥ 1,261,571	¥ 1,375,380	¥ 113,809	9
Card loans	270,007	264,323	(5,684)	(2)
Other	28,668	34,333	5,665	20
Subtotal	1,560,246	1,674,036	113,790	7
<b>Corporate borrowers in Japan</b>				
Real estate companies	270,965	278,076	7,111	3
Non-recourse loans	12,758	18,318	5,560	44
Commercial, industrial and other companies	340,050	301,083	(38,967)	(11)
Subtotal	623,773	597,477	(26,296)	(4)

**Overseas**

Non-recourse loans	75,968	54,987	(20,981)	(28)
Commercial, industrial companies and other	530,924	478,336	(52,588)	(10)
<b>Subtotal</b>	<b>606,892</b>	<b>533,323</b>	<b>(73,569)</b>	<b>(12)</b>
Purchased loans*	24,795	18,933	(5,862)	(24)
<b>Total</b>	<b>¥ 2,815,706</b>	<b>¥ 2,823,769</b>	<b>¥ 8,063</b>	<b>0</b>

\* Purchased loans represent loans with evidence of deterioration of credit quality since origination and for which it is probable at acquisition that collection of all contractually required payments from the debtors is unlikely. As of March 31, 2018, ¥7,554 million, or 0.3%, of our portfolio of installment loans to consumer and corporate borrowers in Japan related to our life insurance operations. We reflect income from these loans as life insurance premiums and related investment income in our consolidated statements of income.



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As of March 31, 2018, ¥345,977 million, or 12%, of the balance of installment loans were to real estate companies in Japan and overseas. Among these amounts, ¥2,547 million, or 0.1% were loans individually evaluated for impairment. We recognized an allowance of ¥543 million on these impaired loans. As of March 31, 2018, we had installment loans outstanding in the amount of ¥83,314 million, or 3% of the balance of installment loans, to companies in the entertainment industry. Among these amounts, ¥1,588 million, or 0.1% were loans individually evaluated for impairment. We recognized an allowance of ¥576 million on these impaired loans.

The balance of installment loans to consumer borrowers in Japan as of March 31, 2018 increased 7% to ¥1,674,036 million compared to the balance as of March 31, 2017, primarily due to an increase in the balance of housing loans. The balance of installment loans to corporate borrowers in Japan as of March 31, 2018 decreased 4%, to ¥597,477 million, compared to the balance as of March 31, 2017, primarily due to a decrease in loans for entertainment companies which are included in commercial, industrial and other companies. The balance of installment loans overseas, as of March 31, 2018 decreased 12%, to ¥533,323 million, compared to the balance as of March 31, 2017, primarily due to sales of loans in the Americas.

For further information, see Note 7 of Item 18. Financial Statements.

**Asset quality***Direct financing leases*

	<b>As of March 31,</b>	
	<b>2017</b>	<b>2018</b>
	<b>(Millions of yen, except</b>	
	<b>percentage data)</b>	
<b>90+ days past-due direct financing leases and allowances for direct financing leases:</b>		
90+ days past-due direct financing leases	¥ 11,600	¥ 12,084
90+ days past-due direct financing leases as a percentage of the balance of investment in direct financing leases	0.96%	1.01%
Provision as a percentage of average balance of investment in direct financing leases*	0.12%	0.19%
Allowance for direct financing leases	¥ 10,537	¥ 10,089
Allowance for direct financing leases as a percentage of the balance of investment in direct financing leases	0.88%	0.84%
The ratio of charge-offs as a percentage of the average balance of investment in direct financing leases	0.34%	0.22%

\* Average balances are calculated on the basis of fiscal year's beginning balance and fiscal quarter-end balances. The balance of 90+ days past-due direct financing leases increased ¥484 million to ¥12,084 million as of March 31, 2018 compared to March 31, 2017. As a result, the ratio of 90+ days past-due direct financing leases increased 0.05% from March 31, 2017 to 1.01%.

We believe that the ratio of allowance for doubtful receivables to the balance of investment in direct financing leases provides a reasonable indication that our allowance for doubtful receivables was appropriate as of March 31, 2018 for the following reasons:

lease receivables are generally diversified and the amount of realized loss on any particular contract is likely to be relatively small; and

all lease contracts are secured by collateral consisting of the underlying leased equipment, and we can expect to recover at least a portion of the outstanding lease receivables by selling the collateral.

**Table of Contents***Loans not individually evaluated for impairment*

	<b>As of March 31,</b>	
	<b>2017</b>	<b>2018</b>
	<b>(Millions of yen, except percentage data)</b>	
<b>90+ days past-due loans and allowance for installment loans:</b>		
90+ days past-due loans not individually evaluated for impairment	¥ 9,722	¥ 12,748
90+ days past-due loans not individually evaluated for impairment as a percentage of the balance of installment loans not individually evaluated for impairment	0.35%	0.46%
Provision as a percentage of average balance of installment loans not individually evaluated for impairment*	0.78%	0.48%
Allowance for probable loan losses on installment loans exclusive of those loans individually evaluated for impairment	¥ 28,622	¥ 30,239
Allowance for probable loan losses on installment loans exclusive of those loans individually evaluated for impairment as a percentage of the balance of installment loans not individually evaluated for impairment	1.04%	1.09%
The ratio of charge-offs as a percentage of the average balance of loans not individually evaluated for impairment	0.54%	0.36%

\* Average balances are calculated on the basis of fiscal year's beginning balance and fiscal quarter-end balances. The balance of 90+ days past-due loans not individually evaluated and evaluated as a homogeneous group for impairment due to their individual significance increased ¥3,026 million to ¥12,748 million as of March 31, 2018 compared to March 31, 2017.

	<b>As of March 31,</b>	
	<b>2017</b>	<b>2018</b>
	<b>(Millions of yen)</b>	
<b>90+ days past-due loans not individually evaluated for impairment:</b>		
Consumer borrowers in Japan		
Housing loans	¥ 1,685	¥ 2,077
Card loans	1,346	1,785
Other	6,160	8,464
Subtotal	9,191	12,326
Overseas		
Housing loans	531	422
Total	¥ 9,722	¥ 12,748

We recognize allowance for housing loans, card loans and other loans in Japan after careful evaluation of the value of collateral underlying the loans, past loss experience and any economic conditions that we believe may affect the default rate. We determine the allowance for our other items on the basis of past loss experience, general economic conditions and the current portfolio composition.

**Table of Contents***Loans individually evaluated for impairment*

	<b>As of March 31,</b>	
	<b>2017</b>	<b>2018</b>
	<b>(Millions of yen)</b>	
<b>Loans individually evaluated for impairment:</b>		
Impaired loans	¥ 59,025	¥ 47,142
Impaired loans requiring an allowance	52,501	39,329
Allowance for loans individually evaluated for impairment*	20,068	14,344

\* The allowance is individually 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 loans if the loans are collateral dependent. New provision for probable loan losses was ¥879 million in fiscal 2017 and ¥1,498 million in fiscal 2018, and charge-off of impaired loans was ¥3,508 million in fiscal 2017 and ¥6,785 million in fiscal 2018. New provision for probable loan losses increased ¥619 million compared to fiscal 2017. Charge-off of impaired loans increased ¥3,277 million compared to fiscal 2017.

The table below sets forth the outstanding balance of impaired loans by region and type of borrower as of the dates indicated. Consumer loans in Japan primarily consist of restructured smaller-balance homogeneous loans individually evaluated for impairment.

	<b>As of March 31,</b>	
	<b>2017</b>	<b>2018</b>
	<b>(Millions of yen)</b>	
<b>Impaired loans:</b>		
<b>Consumer borrowers in Japan</b>		
Housing loans	¥ 4,243	¥ 3,544
Card loans	4,102	4,060
Other	7,903	11,082
Subtotal	16,248	18,686
<b>Corporate borrowers in Japan</b>		
Real estate companies	7,212	1,598
Non-recourse loans	203	254
Commercial, industrial and other companies	11,467	9,174
Subtotal	18,882	11,026
<b>Overseas</b>		
Non-recourse loans	5,829	3,491
Commercial, industrial companies and other	10,623	8,838

Subtotal	16,452	12,329
Purchased loans	7,443	5,101
Total	¥ 59,025	¥ 47,142

For further information, see Note 8 of Item 18. Financial Statements.

**Table of Contents*****Provision for doubtful receivables and probable loan losses***

We recognize provision for doubtful receivables and probable loan losses for direct financing leases and installment loans.

	<b>As of March 31,</b>		<b>Change</b>	
	<b>2017</b>	<b>2018</b>	<b>Amount</b>	<b>Percent (%)</b>
	<b>(Millions of yen, except percentage data)</b>			
<b>Provision for doubtful receivables on direct financing leases and probable loan losses:</b>				
Beginning balance	¥ 60,071	¥ 59,227	¥ (844)	(1)
Direct financing leases	13,380	10,537	(2,843)	(21)
Loans not individually evaluated for impairment	24,158	28,622	4,464	18
Loans individually evaluated for impairment	22,533	20,068	(2,465)	(11)
Provision (Reversal)	22,667	17,265	(5,402)	(24)
Direct financing leases	1,372	2,241	869	63
Loans not individually evaluated for impairment	20,416	13,526	(6,890)	(34)
Loans individually evaluated for impairment	879	1,498	619	70
Charge-offs (net)	(21,822)	(19,465)	2,357	(11)
Direct financing leases	(4,056)	(2,701)	1,355	(33)
Loans not individually evaluated for impairment	(14,258)	(9,979)	4,279	(30)
Loans individually evaluated for impairment	(3,508)	(6,785)	(3,277)	93
Other *	(1,689)	(2,355)	(666)	39
Direct financing leases	(159)	12	171	
Loans not individually evaluated for impairment	(1,694)	(1,930)	(236)	14
Loans individually evaluated for impairment	164	(437)	(601)	
Ending balance	59,227	54,672	(4,555)	(8)
Direct financing leases	10,537	10,089	(448)	(4)
Loans not individually evaluated for impairment	28,622	30,239	1,617	6
Loans individually evaluated for impairment	20,068	14,344	(5,724)	(29)

\* Other mainly includes foreign currency translation adjustments and others.  
For further information, see Note 8 of Item 18. Financial Statements.

***Investment in Securities***

	<b>As of and for the year</b>		<b>Change</b>	
	<b>ended</b>		<b>Amount</b>	<b>Percent (%)</b>
	<b>2017</b>	<b>2018</b>		
	<b>(Millions of yen, except percentage data)</b>			
<b>Investment in securities:</b>				
New securities added	¥ 489,357	¥ 439,383	¥ (49,974)	(10)

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Japan	354,120	300,406	(53,714)	(15)
Overseas	135,237	138,977	3,740	3
Investment in securities	2,026,512	1,729,455	(297,057)	(15)

Note: The balance of investment in securities related to our life insurance operations are included in investment in securities in our consolidated balance sheets; however, income and losses on these investment in securities are recorded in life insurance premiums and related investment income in our consolidated statements of income.

New securities added decreased 10% to ¥439,383 million in fiscal 2018 compared to fiscal 2017. New securities added in Japan decreased 15% in fiscal 2018 compared to fiscal 2017 primarily due to a decrease in



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investments in corporate debt securities. New securities added overseas increased 3% in fiscal 2018 compared to fiscal 2017.

The balance of our investment in securities as of March 31, 2018 decreased 15% to ¥1,729,455 million compared to March 31, 2017.

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investment in securities by security type:</b>				
Trading securities	¥ 569,074	¥ 422,053	¥ (147,021)	(26)
Available-for-sale securities	1,165,417	1,015,477	(149,940)	(13)
Held-to-maturity securities	114,400	113,891	(509)	(0)
Other securities	177,621	178,034	413	0
Total	¥ 2,026,512	¥ 1,729,455	¥ (297,057)	(15)

Investments in trading securities as of March 31, 2018 decreased 26% compared to March 31, 2017 primarily due to a decrease in the assets under management of variable annuity and variable life insurance contracts. Investments in available-for-sale securities as of March 31, 2018 decreased 13% compared to March 31, 2017 primarily due to sale of government bond securities and marketable equity securities. Held-to-maturity securities mainly consist of our life insurance business's investment in Japanese government bonds. Other securities consist mainly of non-marketable equity securities and preferred equity securities carried at cost, and investment funds carried at an amount that reflects equity income and loss based on the investor's share.

For further information, see Note 9 of Item 18. Financial Statements.

**Gains on investment securities and dividends**

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Gains on investment securities and dividends:</b>				
Net gains on investment securities	¥ 27,233	¥ 39,139	¥ 11,906	44
Dividends income, other	3,095	4,163	1,068	35
Total	¥ 30,328	¥ 43,302	¥ 12,974	43

Note: Income and losses on investment in securities related to our life insurance operations are recorded in life insurance premiums and related investment income in our consolidated statements of income.

Gains on investment securities and dividends increased 43% to ¥43,302 million in fiscal 2018 compared to fiscal 2017 due to increases in net gains on investment securities and dividends income. Net gains on investment securities

increased 44% to ¥39,139 million in fiscal 2018 compared to fiscal 2017 mainly due to an increase in gains on sales of securities. Dividends income, other increased 35% to ¥4,163 million in fiscal 2018 compared to fiscal 2017.

As of March 31, 2018, gross unrealized gains on available-for-sale securities, including those held in connection with our life insurance operations, were ¥29,220 million, compared to ¥51,905 million as of March 31, 2017. As of March 31, 2018, gross unrealized losses on available-for-sale securities, including those held in connection with our life insurance operations, were ¥15,856 million, compared to ¥6,244 million as of March 31, 2017.

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For further information, see Note 22 of Item 18. Financial Statements.

**Operating leases**

	As of and for the year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
<b>Operating leases:</b>				
Operating lease revenues	¥ 398,655	¥ 379,665	¥ (18,990)	(5)
Costs of operating leases	243,537	252,327	8,790	4
New equipment acquisitions	401,913	495,609	93,696	23
Japan	207,759	215,832	8,073	4
Overseas	194,154	279,777	85,623	44
Investment in operating leases	1,313,164	1,344,926	31,762	2

Revenues from operating leases in fiscal 2018 decreased 5% to ¥379,665 million compared to fiscal 2017 primarily due to decreases in gains on sales of automobiles in the automobile leasing business and sales of rental property, partially offset by an increase in gains on sales of aircraft in aircraft-related operations. In fiscal 2017 and 2018, gains from the disposition of operating lease assets were ¥69,265 million and ¥35,291 million, respectively.

Costs of operating leases increased 4% to ¥252,327 million in fiscal 2018 compared to fiscal 2017 primarily due to an increase in depreciation expenses resulting from a year on year increase in the average balance of investment in the automobile leasing business, despite a decrease in costs from rental property.

New equipment acquisitions related to operating leases increased 23% to ¥495,609 million in fiscal 2018 compared to fiscal 2017 primarily due to an increase in purchases of aircraft overseas.

Investment in operating leases as of March 31, 2018 increased 2% to ¥1,344,926 million compared to March 31, 2017.

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
<b>Investment in operating leases by category:</b>				
Transportation equipment	¥ 788,676	¥ 864,008	¥ 75,332	10
Measuring and information-related equipment	86,682	89,326	2,644	3
Real estate	404,427	348,867	(55,560)	(14)
Other	10,158	12,210	2,052	20
Accrued rental receivables	23,221	30,515	7,294	31
<b>Total</b>	<b>¥ 1,313,164</b>	<b>¥ 1,344,926</b>	<b>¥ 31,762</b>	<b>2</b>

Investment in transportation equipment operating leases as of March 31, 2018 increased 10% to ¥864,008 million compared to March 31, 2017 primarily due to an increase in new equipment acquisitions in the automobile leasing business. Investment in real estate operating leases as of March 31, 2018 decreased 14% to ¥348,867 million

compared to March 31, 2017, primarily due to sales of real estate in Japan.

For further information, see Note 6 of Item 18. Financial Statements.

*Life insurance*

We reflect all income and losses (other than provision for doubtful receivables and probable loan losses) that we recognize on securities, installment loans, real estate under operating leases and other investments held in

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connection with our life insurance operations as life insurance premiums and related investment income in our consolidated statements of income.

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
<b>(Millions of yen, except percentage data)</b>				
<b>Life insurance premiums and related investment income and life insurance costs:</b>				
Life insurance premiums	¥247,427	¥299,320	¥51,893	21
Life insurance-related investment income	48,513	52,270	3,757	8
Total	¥295,940	¥351,590	¥55,650	19
Life insurance costs	¥200,158	¥255,070	¥54,912	27

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
<b>(Millions of yen, except percentage data)</b>				
<b>Breakdown of life insurance-related investment income (loss):</b>				
Net income on investment securities	¥57,715	¥58,921	¥1,206	2
Losses recognized in income on derivative	(10,568)	(7,332)	3,236	(31)
Interest on loans, income on real estate under operating leases, and others	1,366	681	(685)	(50)
Total	¥48,513	¥52,270	¥3,757	8

Life insurance premiums and related investment income increased 19% to ¥351,590 million in fiscal 2018 compared to fiscal 2017.

Life insurance premiums increased 21% to ¥299,320 million in fiscal 2018 compared to fiscal 2017 due to an increase in the number of policies in force.

Life insurance-related investment income increased 8% to ¥52,270 million in fiscal 2018 compared to fiscal 2017. Net income on investment securities increased due primarily to gains on sales of government bonds and a significant increase in investment income from variable annuity and variable life insurance contracts, caused by the significant market improvement in fiscal 2018. Losses from derivative contracts held to economically hedge the minimum guarantee risk relating to these variable annuity and variable life insurance contracts decreased. On the other hand, interest on loans, income on real estate under operating leases, and others decreased.

Life insurance costs increased 27% to ¥255,070 million in fiscal 2018 compared to fiscal 2017 due to an increase in the number of policies in force and a provision of liability reserve in line with the aforementioned increase in investment income from variable annuity and variable life insurance contracts.



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	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investments by life insurance operations:</b>				
Trading securities	¥ 547,850	¥ 403,797	¥(144,053)	(26)
Available-for-sale debt securities	567,741	470,634	(97,107)	(17)
Available-for-sale equity securities	13,341	8,916	(4,425)	(33)
Held-to-maturity securities	114,400	113,891	(509)	(0)
Other securities	438	1,617	1,179	269
<b>Total investment in securities</b>	<b>1,243,770</b>	<b>998,855</b>	<b>(244,915)</b>	<b>(20)</b>
Installment loans, real estate under operating leases and other investments	58,215	52,080	(6,135)	(11)
<b>Total</b>	<b>¥ 1,301,985</b>	<b>¥ 1,050,935</b>	<b>¥(251,050)</b>	<b>(19)</b>

Investment in securities as of March 31, 2018 decreased 20% to ¥998,855 million compared to March 31, 2017 due to a decrease in trading securities as a result of surrender of variable annuity and variable life insurance contracts, and available-for-sale debt securities decreased due to sales of national government bonds.

For further information, see Note 23 of Item 18. Financial Statements.

***Sales of goods and real estate, Inventories***

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Sales of goods and real estate, Inventories:</b>				
Sales of goods and real estate	¥ 1,015,249	¥ 1,079,052	¥ 63,803	6
Costs of goods and real estate sold	928,794	1,003,509	74,715	8
New real estate added	93,905	83,120	(10,785)	(11)
Inventories	117,863	111,001	(6,862)	(6)

Sales of goods and real estate increased 6% to ¥1,079,052 million compared to fiscal 2017 mainly due to an increase in gains on sales of goods.

Costs of goods and real estate sold increased 8% to ¥1,003,509 million compared to fiscal 2017 mainly due to an increase in expenses in costs of goods. We recorded ¥916 million and ¥936 million of write-downs for fiscal 2017 and 2018, respectively. Costs of goods and real estate sold include the upfront costs associated with advertising and creating model rooms.

New real estate added decreased 11% to ¥83,120 million in fiscal 2018 compared to fiscal 2017.

Inventories as of March 31, 2018 decreased 6% to ¥111,001 million compared to March 31, 2017.

For further information, see Note 24 of Item 18. Financial Statements.





**Table of Contents****Services, Property under Facility Operations**

	As of and for the year ended		Change	
	March 31, 2017	March 31, 2018	Amount	Percent (%)
<b>Services, Property under Facility Operations</b>				
Services income	¥ 737,903	¥ 795,058	¥ 57,155	8
Services expense	451,277	482,796	31,519	7
New assets added	68,571	82,206	13,635	20
Japan	61,275	76,206	14,931	24
Overseas	7,296	6,000	(1,296)	(18)
Property under Facility Operations	398,936	434,786	35,850	9

Services income increased 8% to ¥795,058 million in fiscal 2018 compared to fiscal 2017 primarily due to service expansion in the asset management business and the environment and energy business.

Services expense increased 7% to ¥482,796 million in fiscal 2018 compared to fiscal 2017 mainly resulted from the recognition of expenses from the environment and energy business.

New assets added for property under facility operations increased 20% to ¥82,206 million in fiscal 2018 compared to fiscal 2017 due to investment in electric power facilities and completion of property under facility operations.

Property under facility operations as of March 31, 2018 increased 9% to ¥434,786 million compared to March 31, 2017 primarily due to investment in electric power facilities.

For further information, see Note 25 of Item 18. Financial Statements.

**Expenses****Interest expense**

Interest expense increased 5 % to ¥76,815 million in fiscal 2018 compared to ¥72,910 million in fiscal 2017. Our total outstanding short-term debt, long-term debt and deposits as of March 31, 2018 increased 2 % to ¥5,890,720 million compared to ¥5,753,059 million as of March 31, 2017.

The average interest rate on our short-term debt, long-term debt and deposits in domestic currency, calculated on the basis of average monthly balances, decreased to 0.4 % in fiscal 2018, from 0.5 % in fiscal 2017. The average interest rate on our short-term debt, long-term debt and deposits in foreign currency, calculated on the basis of average monthly balances, remained flat in fiscal 2018 at 2.8% compared to 2.8% in fiscal 2017. For more information regarding our interest rate risk, see Item 3. Key Information Risk Factors. For more information regarding our outstanding debt, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Short-term and long-term debt and deposits.

**Other (income) and expense, net**

Other (income) and expense, net included a net income of ¥4,396 million during fiscal 2017 and a net expense of ¥429 million during fiscal 2018. Foreign currency transaction losses (gains) included in other (income) and expense, net included gains of ¥2,764 million in fiscal 2018 compared to losses of ¥1,850 million in fiscal 2017. We recognized impairment losses on goodwill and other intangible assets included in other (income) and expense, net in the amount of ¥194 million in fiscal 2018 compared to ¥3,196 million of impairment losses on goodwill and other intangible assets during fiscal 2017. For further information on our goodwill and other intangible assets, see Note 13 of Item 18. Financial Statements.

**Table of Contents*****Selling, general and administrative expenses***

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
<b>Selling, general and administrative expenses:</b>				
Personnel expenses	¥ 236,818	¥ 241,508	¥ 4,690	2
Selling expenses	76,729	82,850	6,121	8
Administrative expenses	99,819	102,105	2,286	2
Depreciation of office facilities	5,380	5,131	(249)	(5)
Total	¥ 418,746	¥ 431,594	¥ 12,848	3

Employee salaries and other personnel expenses accounted for 56% of selling, general and administrative expenses in fiscal 2018, and the remaining portion consists of other expenses, such as rent for office space, communication expenses and travel expenses. Selling, general and administrative expenses in fiscal 2018 increased 3% year on year.

***Write-downs of long-lived assets***

As a result of impairment reviews we performed in fiscal 2018 for long-lived assets in Japan and overseas, such as golf courses, office buildings, commercial facilities other than office buildings, condominiums, hotels, and land undeveloped or under construction, write-downs of long-lived assets decreased 40% to ¥5,525 million in fiscal 2018 compared to ¥9,134 million in fiscal 2017. These write-downs, which are reflected as write-downs of long-lived assets, consisted of impairment losses of ¥190 million on two office buildings, ¥1,431 million on five commercial facilities other than office buildings, and ¥3,904 million on other long-lived assets, because the assets were classified as held for sale or the carrying amount exceeded the estimated undiscounted future cash flows. In addition, write-downs of other long-lived assets in fiscal 2018 include write-downs of ¥2,138 million of four hotels. For further information, see Note 26 of Item 18. Financial Statements.

***Write-downs of securities***

Write-downs of securities in fiscal 2018 were mainly for marketable equity securities and non-marketable equity securities. In fiscal 2018, write-downs of securities decreased 81% to ¥1,246 million in fiscal 2018 compared to ¥6,608 million in fiscal 2017. For further information, see Note 9 of Item 18. Financial Statements.

***Equity in net income of affiliates***

Equity in net income of affiliates increased in fiscal 2018 to ¥50,103 million compared to ¥26,520 million in fiscal 2017 primarily due to the recognition of significant gains on sales of investments in real estate joint ventures. For further information, see Note 12 of Item 18. Financial Statements.

***Gains on sales of subsidiaries and affiliates and liquidation losses, net***

Gains on sales of subsidiaries and affiliates and liquidation losses, net decreased to ¥49,203 million in fiscal 2018 compared to ¥63,419 million in fiscal 2017, due to the favorable profit from sales in the Americas and Japan in fiscal 2017. For further information, see Note 3 of Item 18. Financial Statements.

***Bargain Purchase Gain***

There was no bargain purchase gain recognized in fiscal 2018 compared to a bargain purchase gain of ¥5,802 million associated with one of the acquisitions in fiscal 2017. For further information, see Note 3 of Item 18. Financial Statements.

**Table of Contents*****Provision for income taxes***

Provision for income taxes decreased to ¥113,912 million in fiscal 2018 compared to ¥144,039 million in fiscal 2017 primarily due to decreases in the deferred tax assets and liabilities in line with the Tax Cuts and Jobs Act in the United States. For further information, see Note 16 of Item 18. Financial Statements.

***Net income attributable to the noncontrolling interests***

Net income attributable to the noncontrolling interests was recorded as a result of the noncontrolling interests in earnings of certain of our subsidiaries. Net income attributable to the noncontrolling interests in fiscal 2018 was ¥8,002 million, compared to ¥7,255 million in fiscal 2017.

***Net income attributable to the redeemable noncontrolling interests***

Net income attributable to the redeemable noncontrolling interests was recorded as a result of the noncontrolling interests in the earnings of our subsidiaries that issued redeemable stock. Net income attributable to the redeemable noncontrolling interests in fiscal 2018 was ¥452 million, compared to ¥432 million in fiscal 2017. For further information, see Note 18 of Item 18. Financial Statements.

**YEAR ENDED MARCH 31, 2017 COMPARED TO YEAR ENDED MARCH 31, 2016****Performance Summary*****Financial Results***

	Year ended March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except ratios, per Share data and percentages)			
Total revenues	¥ 2,369,202	¥ 2,678,659	¥ 309,457	13
Total expenses	2,081,461	2,349,435	267,974	13
Income before Income Taxes	391,302	424,965	33,663	9
Net Income Attributable to ORIX Corporation Shareholders	260,169	273,239	13,070	5
Earnings per Share (Basic)	198.73	208.88	10.15	5
(Diluted)	198.52	208.68	10.16	5
ROE*1	11.7	11.3	(0.4)	
ROA*2,3	2.32	2.46	0.14	

\*1 ROE is the ratio of Net Income Attributable to ORIX Corporation Shareholders for the period to average ORIX Corporation Shareholders' Equity based on fiscal year beginning and ending balances.

\*2 ROA is the ratio of Net Income Attributable to ORIX Corporation Shareholders for the period to average Total Assets based on fiscal year beginning and ending balances.

\*3 Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2015-03 ( Simplifying the Presentation of Debt Issuance Costs ASC 835-30 ( Interest Imputation of Interest )) in fiscal 2017. Total revenues for fiscal 2017 increased 13% to ¥2,678,659 million compared to ¥2,369,202 million during fiscal 2016. Operating leases revenues increased mainly due to an increase in gains on sales of real estate under operating leases, and sales of goods and real estate increased due to an increase in revenues generated by subsidiaries in the principal investment business. In addition, life insurance premiums and related investment income increased due to increases in insurance premiums in line with an increase in new insurance contracts and investment income in ORIX Life Insurance, and an improvement in investment income from assets under variable annuity and variable life insurance contracts originally held by HLIKK compared to fiscal 2016 during which investment income decreased due to deterioration of the market environment.

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Total expenses for fiscal 2017 increased 13% to ¥2,349,435 million compared to ¥2,081,461 million during fiscal 2016. Costs of goods and real estate sold increased in line with the aforementioned increased revenues. In addition, life insurance costs increased due to an increase in a provision of liability reserve in line with the aforementioned increase in new insurance contracts and the improvement in investment income from assets under variable annuity and variable life insurance contracts.

Equity in net income of affiliates for fiscal 2017 decreased due to an impact from an increase in income from the affiliates in the Americas during fiscal 2016.

As a result of the foregoing, income before income taxes for fiscal 2017 increased 9% to ¥424,965 million compared to ¥391,302 million during fiscal 2016, and net income attributable to ORIX Corporation shareholders increased 5% to ¥273,239 million compared to ¥260,169 million during fiscal 2016.

**Balance Sheet data**

	As of March 31,		Change				
	2016	2017	Amount	Percent (%)			
(Millions of yen except ratios, per share and percentages)							
Total Assets* <sup>1</sup>	¥	10,992,918	¥	11,231,895	¥	238,977	2
(Segment assets)		8,972,449		8,956,872		(15,577)	(0)
Total Liabilities		8,512,632		8,577,722		65,090	1
(Long- and Short-term debt)* <sup>1</sup>		4,286,542		4,138,451		(148,091)	(3)
(Deposits)		1,398,472		1,614,608		216,136	15
ORIX Corporation Shareholders Equity		2,310,431		2,507,698		197,267	9
ORIX Corporation Shareholders Equity per share		1,764.34		1,925.17		160.83	9
ORIX Corporation Shareholders Equity ratio* <sup>2</sup>		21.0%		22.3%		1.3%	
D/E ratio (Debt-to-equity ratio) (Long- and Short-term debt (excluding deposits) / ORIX Corporation Shareholders Equity)* <sup>1</sup>		1.9x		1.7x		(0.2)x	

\*<sup>1</sup> Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2015-03 ( Simplifying the Presentation of Debt Issuance Costs ASC 835-30 ( Interest Imputation of Interest )) on April 1, 2016.

\*2 ORIX Corporation Shareholders' Equity ratio is the ratio as of the period end of ORIX Corporation Shareholders' Equity to total assets.

Total assets increased 2% to ¥11,231,895 million compared to ¥10,992,918 million as of March 31, 2016. Installment loans increased due primarily to an increase of assets in the banking business. On the other hand, investment in operating leases decreased due primarily to sales of rental properties and investment in securities decreased due primarily to sales of investment in securities in ORIX Life Insurance as well as the surrender of contracts originally held by HLIKK. In addition, segment assets remained flat at ¥8,956,872 million compared to the balance as of March 31, 2016.

We manage the balance of interest-bearing liabilities at an appropriate level taking into account the condition of assets and liquidity on-hand as well as the domestic and overseas financial environments. As a result, long- and short-term debt decreased and deposits increased compared to the balance as of March 31, 2016. In addition, policy liabilities and policy account balances decreased due primarily to the aforementioned surrender of contracts.

Shareholders' equity increased 9% to ¥2,507,698 million compared to the balance as of March 31, 2016 due primarily to an increase in retained earnings.



**Table of Contents****Details of Operating Results**

The following is a discussion of certain items in the consolidated statements of income, operating assets in the consolidated balance sheets and other selected financial information, including on a segment by segment basis.

**Segment Information**

Our business is organized into six segments that are based on major products, nature of services, customer base, and management organizations to facilitate strategy formulation, resource allocation and portfolio rebalancing at the segment level. Our six business segments are: Corporate Financial Services, Maintenance Leasing, Real Estate, Investment and Operation, Retail and Overseas Business.

Financial information about our operating segments reported below is separately available to, and evaluated regularly by, management in deciding how to allocate resources and in assessing performance. We evaluate the performance of these segments based on income before income taxes and discontinued operations, adjusted for results of discontinued operations, net income attributable to the noncontrolling interests and net income attributable to the redeemable noncontrolling interests before applicable tax effect. Tax expenses are not included in segment profits.

For a description of the business activities of our segments, see Item 4. Information on the Company Business Segments. See Note 33 of Item 18. Financial Statements for additional segment information, a discussion of how we prepare our segment information and the reconciliation of segment totals to consolidated financial statement amounts.

	Year ended March 31,		Change	
	2016	2017	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Segment Revenues:</b>				
Corporate Financial Services	¥ 107,150	¥ 102,979	¥ (4,171)	(4)
Maintenance Leasing	271,662	270,615	(1,047)	(0)
Real Estate	191,540	212,050	20,510	11
Investment and Operation	1,028,355	1,271,973	243,618	24
Retail	254,289	368,665	114,376	45
Overseas Business	526,008	458,912	(67,096)	(13)
Segment Total	2,379,004	2,685,194	306,190	13
Difference between Segment Total and Consolidated Amounts	(9,802)	(6,535)	3,267	
Consolidated Amounts	¥ 2,369,202	¥ 2,678,659	¥ 309,457	13

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	Year ended March 31,		Change	
	2016	2017	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Segment Profits:</b>				
Corporate Financial Services	¥ 42,418	¥ 38,032	¥ (4,386)	(10)
Maintenance Leasing	42,935	39,787	(3,148)	(7)
Real Estate	42,902	72,841	29,939	70
Investment and Operation	57,220	85,000	27,780	49
Retail	51,756	72,865	21,109	41
Overseas Business	142,879	112,312	(30,567)	(21)
Segment Total	380,110	420,837	40,727	11
Difference between Segment Total and Consolidated Amounts	11,192	4,128	(7,064)	(63)
Consolidated Amounts	¥ 391,302	¥ 424,965	¥ 33,663	9

Note: Segment profit is calculated based on net income attributable to the noncontrolling interests and net income attributable to the redeemable noncontrolling interests before applicable tax effect. Tax expenses are not included in segment profits.

	As of March 31,		Change	
	2016	2017	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Segment Assets:</b>				
Corporate Financial Services	¥ 1,049,867	¥ 1,032,152	¥ (17,715)	(2)
Maintenance Leasing	731,329	752,513	21,184	3
Real Estate	739,592	657,701	(81,891)	(11)
Investment and Operation	704,156	768,675	64,519	9
Retail	3,462,772	3,291,631	(171,141)	(5)
Overseas Business	2,284,733	2,454,200	169,467	7
Segment Total	8,972,449	8,956,872	(15,577)	(0)
Difference between Segment Total and Consolidated Amounts	2,020,469	2,275,023	254,554	13
Consolidated Amounts	¥ 10,992,918	¥ 11,231,895	¥ 238,977	2

**Corporate Financial Services Segment**

This segment is involved in lending, leasing and fee business.

The Japanese economy on the whole entered a moderate recovery phase despite some areas of weakness. While interest rates overall increased along with the United States economy, the balance of outstanding loans at financial institutions continues to increase and interest rates on loans remain at low levels.

Segment revenues decreased 4% to ¥102,979 million during fiscal 2017 compared to ¥107,150 million during fiscal 2016 due to a decrease in finance revenues in line with decreased average investment balance and a decrease in gains on sales of securities, despite an increase in services income resulting primarily from revenue generated by Yayoi, and from our stable fee business to domestic small-and medium-sized enterprise customers.

Segment expenses increased due primarily to an increase in selling, general and administrative expenses. As a result, segment profits decreased 10% to ¥38,032 million during fiscal 2017 compared to ¥42,418 million during fiscal 2016.

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Segment assets decreased 2% to ¥1,032,152 million as of March 31, 2017 compared to March 31, 2016 due primarily to a decrease in installment loans.

	Year ended March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 34,215	¥ 30,153	¥ (4,062)	(12)
Operating leases	25,461	25,626	165	1
Services income	35,744	40,595	4,851	14
Sales of goods and real estate, and other	11,730	6,605	(5,125)	(44)
<b>Total Segment Revenues</b>	<b>107,150</b>	<b>102,979</b>	<b>(4,171)</b>	<b>(4)</b>
Interest expense	7,214	6,032	(1,182)	(16)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	(676)	(76)	600	
Other	58,968	62,057	3,089	5
<b>Total Segment Expenses</b>	<b>65,506</b>	<b>68,013</b>	<b>2,507</b>	<b>4</b>
<b>Segment Operating Income</b>	<b>41,644</b>	<b>34,966</b>	<b>(6,678)</b>	<b>(16)</b>
Equity in Net income (Loss) of Affiliates, and others	774	3,066	2,292	296
<b>Segment Profits</b>	<b>¥ 42,418</b>	<b>¥ 38,032</b>	<b>¥ (4,386)</b>	<b>(10)</b>

	As of March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 431,603	¥ 433,929	¥ 2,326	1
Installment loans	411,824	398,558	(13,266)	(3)
Investment in operating leases	28,695	30,114	1,419	5
Investment in securities	36,542	34,773	(1,769)	(5)
Property under facility operations	11,294	13,034	1,740	15
Inventories	53	51	(2)	(4)
Advances for investment in operating leases	1,737	80	(1,657)	(95)
Investment in affiliates	22,755	18,392	(4,363)	(19)
Advances for property under facility operations	304	139	(165)	(54)
Goodwill and other intangible assets acquired in business combinations	105,060	103,082	(1,978)	(2)
<b>Total Segment Assets</b>	<b>¥ 1,049,867</b>	<b>¥ 1,032,152</b>	<b>¥ (17,715)</b>	<b>(2)</b>

**Maintenance Leasing Segment**

This segment consists of automobile leasing and rentals, car sharing, and test and measurement instruments and IT-related equipment rentals and leasing.

While demand in corporate capital investment has been gradually increasing, concerns about uncertainty in the domestic and overseas economic outlook has deterred new investment. The volume of new auto-leases in Japan increased slightly compared to fiscal 2016.

Segment revenues remained flat at ¥270,615 million during fiscal 2017 compared to during fiscal 2016 due to less gains on sales in operating leases revenues, offsetting an increase in finance revenues.

Segment expenses increased due primarily to increases in costs of operating leases in line with increased average investment asset balance in the auto-business and selling, general and administrative expenses. As a result, segment profits decreased 7% to ¥39,787 million during fiscal 2017 compared to ¥42,935 million during fiscal 2016.

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Segment assets increased 3% to ¥752,513 million as of March 31, 2017 compared to March 31, 2016 due primarily to an increase in new auto-leases in the auto-business.

	Year ended March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 12,067	¥ 13,029	¥ 962	8
Operating leases	188,815	187,219	(1,596)	(1)
Services income	66,841	66,314	(527)	(1)
Sales of goods and real estate, and other	3,939	4,053	114	3
<b>Total Segment Revenues</b>	<b>271,662</b>	<b>270,615</b>	<b>(1,047)</b>	<b>(0)</b>
Interest expense	3,545	3,360	(185)	(5)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	27	258	231	856
Other	225,148	227,178	2,030	1
<b>Total Segment Expenses</b>	<b>228,720</b>	<b>230,796</b>	<b>2,076</b>	<b>1</b>
<b>Segment Operating Income</b>	<b>42,942</b>	<b>39,819</b>	<b>(3,123)</b>	<b>(7)</b>
Equity in Net income (Loss) of Affiliates, and others	(7)	(32)	(25)	
<b>Segment Profits</b>	<b>¥ 42,935</b>	<b>¥ 39,787</b>	<b>¥ (3,148)</b>	<b>(7)</b>

	As of March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 245,257	¥ 277,480	¥ 32,223	13
Investment in operating leases	481,031	469,824	(11,207)	(2)
Investment in securities	1,214	1,322	108	9
Property under facility operations	718	803	85	12
Inventories	374	445	71	19
Advances for investment in operating leases	314	335	21	7
Investment in affiliates	1,996	1,880	(116)	(6)
Goodwill and other intangible assets acquired in business combinations	425	424	(1)	(0)
<b>Total Segment Assets</b>	<b>¥ 731,329</b>	<b>¥ 752,513</b>	<b>¥ 21,184</b>	<b>3</b>

**Real Estate Segment**

This segment consists of real estate development and rental, facility operation, REIT asset management, and real estate investment advisory services.

Land prices remain high and vacancy rates in the Japanese office building market continue to show improvements, especially in the Greater Tokyo Area due primarily to the quantitative easing policies implemented by the Bank of Japan, including the low interest rate. However, we are also seeing a trend where sales prices of condominiums are no longer increasing. Changes in tourism style such as uses of vacation rentals are affecting hotels and Japanese inns operation.

Segment revenues increased 11% to ¥212,050 million during fiscal 2017 compared to ¥191,540 million during fiscal 2016 due primarily to an increase in gains on sales of rental properties, which are included in operating leases revenues.

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Segment expenses decreased compared to fiscal 2016 due primarily to a decrease in costs of operating leases in line with a decrease in assets and write-downs of long-lived assets.

As a result of the foregoing, segment profits increased 70% to ¥72,841 million during fiscal 2017 compared to ¥42,902 million during fiscal 2016.

Segment assets decreased 11% to ¥657,701 million as of March 31, 2017 compared to March 31, 2016 due primarily to a decrease in investment in operating leases, which resulted from sales of rental properties.

	Year ended March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 6,720	¥ 2,319	¥ (4,401)	(65)
Operating leases	60,253	88,153	27,900	46
Services income	110,630	112,624	1,994	2
Sales of goods and real estate, and other	13,937	8,954	(4,983)	(36)
<b>Total Segment Revenues</b>	<b>191,540</b>	<b>212,050</b>	<b>20,510</b>	<b>11</b>
Interest expense	4,676	3,085	(1,591)	(34)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	8,338	3,386	(4,952)	(59)
Other	141,609	136,629	(4,980)	(4)
<b>Total Segment Expenses</b>	<b>154,623</b>	<b>143,100</b>	<b>(11,523)</b>	<b>(7)</b>
<b>Segment Operating Income</b>	<b>36,917</b>	<b>68,950</b>	<b>32,033</b>	<b>87</b>
Equity in Net income (Loss) of Affiliates, and others	5,985	3,891	(2,094)	(35)
<b>Segment Profits</b>	<b>¥ 42,902</b>	<b>¥ 72,841</b>	<b>¥ 29,939</b>	<b>70</b>

	As of March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 21,541	¥ 27,523	¥ 5,982	28
Installment loans	5,821	0	(5,821)	
Investment in operating leases	375,050	298,184	(76,866)	(20)
Investment in securities	5,861	3,552	(2,309)	(39)
Property under facility operations	177,510	185,023	7,513	4
Inventories	3,597	2,567	(1,030)	(29)
Advances for investment in operating leases	38,486	18,634	(19,852)	(52)
Investment in affiliates	91,010	99,347	8,337	9
Advances for property under facility operations	8,829	11,196	2,367	27
	11,887	11,675	(212)	(2)



Goodwill and other intangible assets acquired in business combinations

Total Segment Assets	¥739,592	¥657,701	¥(81,891)	(11)
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***Investment and Operation Segment***

This segment consists of environment and energy business, principal investment, loan servicing (asset recovery), and concession business.

Investment in infrastructure, especially energy infrastructure, is diversifying in Japan. In the energy business, among renewable energy, investment is expanding beyond solar power to wind and geothermal power.

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In addition, business structures are also diversifying. In infrastructure investment markets, the use of private funds is expanding in the public facilities management. In emerging countries, infrastructure demand is growing rapidly with economic growth, and Japanese companies are expected to increase infrastructure investment. In the capital markets, the number of mergers and acquisitions by Japanese companies has remained high.

Segment revenues increased 24% to ¥1,271,973 million during fiscal 2017 compared to ¥1,028,355 million during fiscal 2016 due to increases in sales of goods and services income from the environment and energy business and subsidiaries in the principal investment business.

Segment expenses increased compared to fiscal 2016 due to an increase in expenses in line with the aforementioned revenues expansion and recognition of write-downs of securities.

As a result of the foregoing and the recognition of gains on sales of shares of subsidiaries and affiliates, and the recognition of a bargain purchase gain from the acquisition of a subsidiary, segment profits increased 49% to ¥85,000 million during fiscal 2017 compared to ¥57,220 million during fiscal 2016.

Segment assets increased 9% to ¥768,675 million as of March 31, 2017 compared to March 31, 2016 due primarily to an increase in property under facility operations in the environment and energy business.

	Year ended March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 12,625	¥ 10,680	¥ (1,945)	(15)
Gains on investment securities and dividends	10,270	12,961	2,691	26
Sales of goods and real estate	718,902	938,438	219,536	31
Services income	277,163	299,709	22,546	8
Operating leases, and other	9,395	10,185	790	8
<b>Total Segment Revenues</b>	<b>1,028,355</b>	<b>1,271,973</b>	<b>243,618</b>	<b>24</b>
Interest expense	3,539	4,870	1,331	38
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	(424)	6,760	7,184	
Other	980,121	1,212,681	232,560	24
<b>Total Segment Expenses</b>	<b>983,236</b>	<b>1,224,311</b>	<b>241,075</b>	<b>25</b>
<b>Segment Operating Income</b>	<b>45,119</b>	<b>47,662</b>	<b>2,543</b>	<b>6</b>
Equity in Net income (Loss) of Affiliates, and others	12,101	37,338	25,237	209

Segment Profits	¥	57,220	¥	85,000	¥	27,780	49
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	As of March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 21,133	¥ 26,016	¥ 4,883	23
Installment loans	75,996	56,435	(19,561)	(26)
Investment in operating leases	24,378	25,434	1,056	4
Investment in securities	71,705	51,474	(20,231)	(28)
Property under facility operations	130,568	187,674	57,106	44
Inventories	98,016	112,798	14,782	15
Advances for investment in operating leases	404	1,237	833	206
Investment in affiliates	108,237	71,481	(36,756)	(34)
Advances for property under facility operations	38,628	55,180	16,552	43
Goodwill and other intangible assets acquired in business combinations	135,091	180,946	45,855	34
<b>Total Segment Assets</b>	<b>¥ 704,156</b>	<b>¥ 768,675</b>	<b>¥ 64,519</b>	<b>9</b>

**Retail Segment**

This segment consists of life insurance, banking and card loan business.

The life insurance business in Japan is currently affected by macroeconomic factors such as domestic population decline. However, we are seeing a rise in demand for medical insurance and an increasing number of companies developing new products in response. On the other hand, we are also seeing suspensions of the sales of certain products and an increase in insurance premiums on new contracts due primarily to the Bank of Japan's negative interest rate policy. In the card loan business for individuals, banks and other lenders are expanding their assets and competition in the lending business continues to intensify in the current low interest rate environment.

Segment revenues increased 45% to ¥368,665 million during fiscal 2017 compared to ¥254,289 million during fiscal 2016 mainly due to increases in insurance premiums in line with an increase in new insurance contracts and investment income in ORIX Life Insurance, and an improvement in investment income from assets under variable annuity and variable life insurance contracts originally held by HLIKK compared to fiscal 2016 year during which investment income decreased due to deterioration of the market environment.

Segment expenses increased compared to fiscal 2016 due to an increase in a provision of liability reserve in line with the aforementioned increase in new insurance contracts and the improvement in investment income from assets under variable annuity and variable life insurance contracts.

As a result of the foregoing, segment profits increased 41% to ¥72,865 million during fiscal 2017 compared to ¥51,756 million during fiscal 2016.

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Segment assets decreased 5% to ¥3,291,631 million as of March 31, 2017 compared to March 31, 2016 due primarily to sales of investment in securities at ORIX Life Insurance as well as the surrender of variable annuity and variable life insurance contracts originally held by HLIKK, offsetting an increase in installment loans in the banking business.

	Year ended March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 55,318	¥ 59,177	¥ 3,859	7
Life insurance premiums and related investment income	190,805	297,886	107,081	56
Services income, and other	8,166	11,602	3,436	42
Total Segment Revenues	254,289	368,665	114,376	45
Interest expense	4,654	4,041	(613)	(13)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	7,370	10,109	2,739	37
Other	191,304	281,663	90,359	47
Total Segment Expenses	203,328	295,813	92,485	45
Segment Operating Income	50,961	72,852	21,891	43
Equity in Net income (Loss) of Affiliates, and others	795	13	(782)	(98)
Segment Profits	¥ 51,756	¥ 72,865	¥ 21,109	41

	As of March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 1,198	¥ 518	¥ (680)	(57)
Installment loans	1,496,407	1,718,655	222,248	15
Investment in operating leases	52,359	46,243	(6,116)	(12)
Investment in securities	1,893,631	1,509,180	(384,451)	(20)
Investment in affiliates	911	810	(101)	(11)
Goodwill and other intangible assets acquired in business combinations	18,266	16,225	(2,041)	(11)

Total Segment Assets	¥	3,462,772	¥	3,291,631	¥	(171,141)	(5)
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### ***Overseas Business Segment***

This segment consists of leasing, lending, investment in bonds, asset management and ship- and aircraft-related operations.

The economy of the United States has been on a continuing trend of recovery with improvements in employment and income. The economy of Europe has picked up moderately, the Chinese economy is still in a correction phase and the economies of emerging and resource-rich countries have bottomed out. Although interest rates remain low worldwide, the prospect of rising interest rates has been strong in the United States. The asset management industry is expected to increase AuM due to the increase in pension assets and the high-income class population over the mid- and long-term. Also, the aviation industry is expected to continue to expand its market size against the backdrop of increasing passenger demand mainly in emerging countries. In addition, there are political and geopolitical tensions in certain regions that need to be monitored carefully.

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Segment revenues decreased 13% to ¥458,912 million during fiscal 2017 compared to ¥526,008 million during fiscal 2016 due to decreases in services income resulting primarily from the deconsolidation of Houlihan Lokey in line with the partial divestment of its shares in fiscal 2016, and decreases in sales of goods due to a sale of a subsidiary during fiscal 2017, despite an increase in finance revenues from the Americas and in Asia.

Segment expenses decreased compared to fiscal 2016 due primarily to the deconsolidation of Houlihan Lokey.

As a result of the foregoing and due to the recognition of a gain on the partial divestment of Houlihan Lokey shares in fiscal 2016 and the impact from strong yen, despite gains on sales of subsidiaries and affiliates in the Americas, segment profits decreased 21% to ¥112,312 million during fiscal 2017 compared to ¥142,879 million during fiscal 2016.

Segment assets increased 7% to ¥2,454,200 million as of March 31, 2017 compared to March 31, 2016 due to increases in installment loans in Asia and the Americas and investment in securities in the Americas as well as an increase in investment in operating leases of aircraft-related operations.

	Year ended March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 75,004	¥ 81,251	¥ 6,247	8
Gains on investment securities and dividends	16,113	13,334	(2,779)	(17)
Operating leases	91,973	88,474	(3,499)	(4)
Services income	250,085	216,720	(33,365)	(13)
Sales of goods and real estate, and other	92,833	59,133	(33,700)	(36)
Total Segment Revenues	526,008	458,912	(67,096)	(13)
Interest expense	33,356	36,535	3,179	10
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	16,226	18,215	1,989	12
Other	402,568	332,024	(70,544)	(18)
Total Segment Expenses	452,150	386,774	(65,376)	(14)
Segment Operating Income	73,858	72,138	(1,720)	(2)
Equity in Net income (Loss) of Affiliates, and others	69,021	40,174	(28,847)	(42)
Segment Profits	¥ 142,879	¥ 112,312	¥ (30,567)	(21)

	As of March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 351,010	¥ 357,732	¥ 6,722	2
Installment loans	407,870	457,393	49,523	12
Investment in operating leases	375,401	420,207	44,806	12
Investment in securities	383,227	465,899	82,672	22
Property under facility operations	23,762	29,705	5,943	25
Inventories	37,782	1,811	(35,971)	(95)
Advances for investment in operating leases	5,302	9,024	3,722	70
Investment in affiliates	305,674	332,154	26,480	9
Advances for property under facility operations	39	39	0	0
Goodwill and other intangible assets acquired in business combinations	394,666	380,236	(14,430)	(4)
<b>Total Segment Assets</b>	<b>¥ 2,284,733</b>	<b>¥ 2,454,200</b>	<b>¥ 169,467</b>	<b>7</b>



**Table of Contents****Revenues, New Business Volumes and Investments****Finance revenues**

	Year ended March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
<b>Finance revenues:</b>				
Finance revenues	¥ 200,889	¥ 200,584	¥ (305)	(0)

Finance revenues remained flat at ¥200,584 million for fiscal 2017 from fiscal 2016 primarily due to an impact from strong yen and recognition of a gain on sales of assets under financing leases during the previous fiscal year, offset an increase in revenues from installment loans due to an increase in the average balance of installment loans.

**Direct financing leases**

	As of and for the year ended		Change	
	March 31,	March 31,	Amount	Percent (%)
	2016	2017	(Millions of yen, except percentage data)	
<b>Direct financing leases:</b>				
New equipment acquisitions	¥ 527,575	¥ 512,740	¥ (14,835)	(3)
Japan	329,691	312,788	(16,903)	(5)
Overseas	197,884	199,952	2,068	1
Investment in direct financing leases	1,190,136	1,204,024	13,888	1

New equipment acquisitions related to direct financing leases decreased 3% to ¥512,740 million compared to fiscal 2016. In Japan, new equipment acquisitions decreased 5% in fiscal 2017 compared to fiscal 2016, and overseas, new equipment acquisitions increased 1% in fiscal 2017 compared to fiscal 2016.

Investment in direct financing leases as of March 31, 2017 increased 1% to ¥1,204,024 million compared to March 31, 2016 due to increases in new equipment acquisitions in the auto-business and overseas subsidiaries.

As of March 31, 2017, no single lessee represented more than 1% of the balance of direct financing leases. As of March 31, 2017, 70% of our direct financing leases were to lessees in Japan, while 30% were to overseas lessees. Approximately 7% of our direct financing leases were to lessees in Hong Kong and approximately 5% of our direct financing leases were to lessees in Malaysia. No other overseas country represented more than 5% of our total portfolio of direct financing leases.

	As of March 31,		Change	
	2016	2017	Amount	Percent (%)

(Millions of yen, except percentage data)

<b>Investment in direct financing leases by category:</b>							
Transportation equipment	¥	455,556	¥	496,335	¥	40,779	9
Industrial equipment		268,208		244,606		(23,602)	(9)
Electronics		159,991		158,726		(1,265)	(1)
Information-related and office equipment		102,161		102,078		(83)	(0)
Commercial services equipment		54,090		54,389		299	1
Other		150,130		147,890		(2,240)	(1)
<b>Total</b>	¥	<b>1,190,136</b>	¥	<b>1,204,024</b>	¥	<b>13,888</b>	<b>1</b>

For further information, see Note 5 of Item 18. Financial Statements.

**Table of Contents****Installment loans**

	As of and for the year ended		Amount	Change			
	2016	March 31, 2017		Amount	Percent (%)		
(Millions of yen, except percentage data)							
<b>Installment loans:</b>							
New loans added	¥	1,102,279	¥	1,309,488	¥	207,209	19
Japan		808,075		972,361		164,286	20
Overseas		294,204		337,127		42,923	15
Installment loans		2,592,233		2,815,706		223,473	9

Note: The balance of installment loans related to our life insurance operations is included in installment loans in our consolidated balance sheets; however, income and losses on these loans are recorded in life insurance premiums and related investment income in our consolidated statements of income.

New loans added increased 19% to ¥1,309,488 million compared to fiscal 2016. In Japan, new loans added increased 20% to ¥972,361 million in fiscal 2017 compared to fiscal 2016 due to an increase in housing loans, and overseas, new loans added increased 15% to ¥337,127 million compared to fiscal 2016 due to increased lending activity in the Americas and Asia.

The balance of installment loans as of March 31, 2017 increased 9% to ¥2,815,706 million compared to March 31, 2016 due to increase of housing loans and card loans.

	As of March 31,		Amount	Change			
	2016	2017		Amount	Percent (%)		
(Millions of yen, except percentage data)							
<b>Installment loans:</b>							
<b>Consumer borrowers in Japan</b>							
Housing loans	¥	1,122,088	¥	1,261,571	¥	139,483	12
Card loans		260,533		270,007		9,474	4
Other		23,466		28,668		5,202	22
Subtotal		1,406,087		1,560,246		154,159	11
<b>Corporate borrowers in Japan</b>							
Real estate companies		230,001		270,965		40,964	18
Non-recourse loans		19,951		12,758		(7,193)	(36)
Commercial, industrial and other companies		365,371		340,050		(25,321)	(7)

Subtotal	615,323	623,773	8,450	1
<b>Overseas</b>				
Non-recourse loans	61,260	75,968	14,708	24
Commercial, industrial companies and other	479,039	530,924	51,885	11
Subtotal	540,299	606,892	66,593	12
Purchased loans*	30,524	24,795	(5,729)	(19)
Total	¥ 2,592,233	¥ 2,815,706	¥ 223,473	9

\* Purchased loans represent loans with evidence of deterioration of credit quality since origination and for which it is probable at acquisition that collection of all contractually required payments from the debtors is unlikely. As of March 31, 2017, ¥11,524 million, or 1%, of our portfolio of installment loans to consumer and corporate borrowers in Japan related to our life insurance operations. We reflect income from these loans as life insurance premiums and related investment income in our consolidated statements of income.

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As of March 31, 2017, ¥340,398 million, or 12%, of the balance of installment loans were to real estate companies in Japan and overseas. Among these amounts, ¥7,212 million, or 0.3% were loans individually evaluated for impairment. We recognized an allowance of ¥1,638 million on these impaired loans. As of March 31, 2017, we had installment loans outstanding in the amount of ¥95,926 million, or 3% of the balance of installment loans, to companies in the entertainment industry. Among these amounts, ¥1,736 million, or 0.1% were loans individually evaluated for impairment. We recognized an allowance of ¥637 million on these impaired loans.

The balance of installment loans to consumer borrowers in Japan as of March 31, 2017 increased 11% to ¥1,560,246 million compared to the balance as of March 31, 2016, primarily due to an increase in the balance of housing loans. The balance of installment loans to corporate borrowers in Japan as of March 31, 2017 increased 1%, to ¥623,773 million, compared to the balance as of March 31, 2016, primarily due to an increase in the balance of loans to real estate companies. The balance of installment loans overseas, as of March 31, 2017 increased 12%, to ¥606,892 million, compared to the balance as of March 31, 2016, primarily due to increased lending activity in the Americas.

For further information, see Note 7 of Item 18. Financial Statements.

**Asset quality***Direct financing leases*

	<b>As of March 31,</b>	
	<b>2016</b>	<b>2017</b>
	<b>(Millions of yen, except percentage data)</b>	
<b>90+ days past-due direct financing leases and allowances for direct financing leases:</b>		
90+ days past-due direct financing leases	¥ 12,556	¥ 11,600
90+ days past-due direct financing leases as a percentage of the balance of investment in direct financing leases	1.06%	0.96%
Provision as a percentage of average balance of investment in direct financing leases *	0.23%	0.12%
Allowance for direct financing leases	¥ 13,380	¥ 10,537
Allowance for direct financing leases as a percentage of the balance of investment in direct financing leases	1.12%	0.88%
The ratio of charge-offs as a percentage of the average balance of investment in direct financing leases	0.34%	0.34%

\* Average balances are calculated on the basis of fiscal year's beginning balance and fiscal quarter-end balances. The balance of 90+ days past-due direct financing leases decreased ¥956 million to ¥11,600 million as of March 31, 2017 compared to March 31, 2016. As a result, the ratio of 90+ days past-due direct financing leases decreased 0.10% from March 31, 2016 to 0.96%.

We believe that the ratio of allowance for doubtful receivables to the balance of investment in direct financing leases provides a reasonable indication that our allowance for doubtful receivables was appropriate as of March 31, 2017 for the following reasons:

lease receivables are generally diversified and the amount of realized loss on any particular contract is likely to be relatively small; and

all lease contracts are secured by collateral consisting of the underlying leased equipment, and we can expect to recover at least a portion of the outstanding lease receivables by selling the collateral.

**Table of Contents***Loans not individually evaluated for impairment*

	<b>As of March 31,</b>			
	<b>2016</b>		<b>2017</b>	
	<b>(Millions of yen,</b>			
	<b>except percentage data)</b>			
<b>90+ days past-due loans and allowance for installment loans:</b>				
90+ days past-due loans not individually evaluated for impairment	¥	8,178	¥	9,722
90+ days past-due loans not individually evaluated for impairment as a percentage of the balance of installment loans not individually evaluated for impairment		0.32%		0.35%
Provision as a percentage of average balance of installment loans not individually evaluated for impairment *		0.42%		0.78%
Allowance for probable loan losses on installment loans exclusive of those loans individually evaluated for impairment	¥	24,158	¥	28,622
Allowance for probable loan losses on installment loans exclusive of those loans individually evaluated for impairment as a percentage of the balance of installment loans not individually evaluated for impairment		0.96%		1.04%
The ratio of charge-offs as a percentage of the average balance of loans not individually evaluated for impairment		0.37%		0.54%

\* Average balances are calculated on the basis of fiscal year's beginning balance and fiscal quarter-end balances. The balance of 90+ days past-due loans not individually evaluated and evaluated as a homogeneous group for impairment due to their individual significance increased ¥1,544 million to ¥9,722 million as of March 31, 2017 compared to March 31, 2016.

	<b>As of March 31,</b>			
	<b>2016</b>		<b>2017</b>	
	<b>(Millions of yen)</b>			
<b>90+ days past-due loans not individually evaluated for impairment:</b>				
Consumer borrowers in Japan				
Housing loans	¥	2,267	¥	1,685
Card loans		657		1,346
Other		3,452		6,160
Subtotal		6,376		9,191
Overseas				

Housing loans		1,802		531
<b>Total</b>	<b>¥</b>	<b>8,178</b>	<b>¥</b>	<b>9,722</b>

We recognize allowance for housing loans, card loans and other loans in Japan after careful evaluation of the value of collateral underlying the loans, past loss experience and any economic conditions that we believe may affect the default rate. We determine the allowance for our other items on the basis of past loss experience, general economic conditions and the current portfolio composition.

*Loans individually evaluated for impairment*

		<b>As of March 31,</b>		
		<b>2016</b>		<b>2017</b>
		<b>(Millions of yen)</b>		
<b>Loans individually evaluated for impairment:</b>				
Impaired loans	¥	73,593	¥	59,025
Impaired loans requiring an allowance		58,992		52,501
Allowance for loans individually evaluated for impairment *		22,533		20,068



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\* The allowance is individually 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 loans if the loans are collateral dependent. New provision for probable loan losses was ¥1,369 million of reversal in fiscal 2016 and ¥879 million in fiscal 2017, and charge-off of impaired loans was ¥4,527 million in fiscal 2016 and ¥3,508 million in fiscal 2017. New provision for probable loan losses increased ¥2,248 million compared to fiscal 2016. Charge-off of impaired loans decreased ¥1,019 million compared to fiscal 2016.

The table below sets forth the outstanding balance of impaired loans by region and type of borrower as of the dates indicated. Consumer loans in Japan primarily consist of restructured smaller-balance homogeneous loans individually evaluated for impairment.

	<b>As of March 31,</b>	
	<b>2016</b>	<b>2017</b>
	<b>(Millions of yen)</b>	
<b>Impaired loans:</b>		
Consumer borrowers in Japan		
Housing loans	¥ 4,511	¥ 4,243
Card loans	4,123	4,102
Other	4,916	7,903
Subtotal	13,550	16,248
Corporate borrowers in Japan		
Real estate companies	8,612	7,212
Non-recourse loans	5,068	203
Commercial, industrial and other companies	17,477	11,467
Subtotal	31,157	18,882
Overseas		
Non-recourse loans	5,989	5,829
Commercial, industrial companies and other	11,884	10,623
Subtotal	17,873	16,452
Purchased loans	11,013	7,443
Total	¥ 73,593	¥ 59,025

For further information, see Note 8 of Item 18. Financial Statements.

**Table of Contents*****Provision for doubtful receivables and probable loan losses***

We recognize provision for doubtful receivables and probable loan losses for direct financing leases and installment loans.

	As of March 31,		Change	
	2016	2017	Amount	Percent
<b>Provision for doubtful receivables on direct financing leases and probable loan losses:</b>				
Beginning balance	¥ 72,326	¥ 60,071	¥ (12,255)	
Provision for doubtful receivables on direct financing leases	15,204	13,380	(1,824)	
not individually evaluated for impairment	22,743	24,158	1,415	
individually evaluated for impairment	34,379	22,533	(11,846)	
Reversal of provision (reversal)	11,717	22,667	10,950	
Provision for doubtful receivables on direct financing leases	2,787	1,372	(1,415)	
not individually evaluated for impairment	10,299	20,416	10,117	
individually evaluated for impairment	(1,369)	879	2,248	
Write-offs (net)	(17,504)	(21,822)	(4,318)	
Provision for doubtful receivables on direct financing leases	(4,062)	(4,056)	6	
not individually evaluated for impairment	(8,915)	(14,258)	(5,343)	
individually evaluated for impairment	(4,527)	(3,508)	1,019	
Other	(6,468)	(1,689)	4,779	
Provision for doubtful receivables on direct financing leases	(549)	(159)	390	
not individually evaluated for impairment	31	(1,694)	(1,725)	
individually evaluated for impairment	(5,950)	164	6,114	
Ending balance	60,071	59,227	(844)	
Provision for doubtful receivables on direct financing leases	13,380	10,537	(2,843)	
not individually evaluated for impairment	24,158	28,622	4,464	
individually evaluated for impairment	22,533	20,068	(2,465)	

\* Other mainly includes foreign currency translation adjustments and others. For further information, see Note 8 of Item 18. Financial Statements.

***Investment in Securities***

	As of and for the year ended		Change	
	March 31, 2016	March 31, 2017	Amount	Percent (%)
<b>Investment in securities:</b>				

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New securities added	¥ 898,230	¥ 489,357	¥ (408,873)	(46)
Japan	766,016	354,120	(411,896)	(54)
Overseas	132,214	135,237	3,023	2
Investment in securities	2,344,792	2,026,512	(318,280)	(14)

Note: The balance of investment in securities related to our life insurance operations are included in investment in securities in our consolidated balance sheets; however, income and losses on these investment in securities are recorded in life insurance premiums and related investment income in our consolidated statements of income. New securities added decreased 46% to ¥489,357 million in fiscal 2017 compared to fiscal 2016. New securities added in Japan decreased 54% in fiscal 2017 compared to fiscal 2016 primarily due to a decrease in

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investments in corporate debt securities. New securities added overseas increased 2% in fiscal 2017 compared to fiscal 2016.

The balance of our investment in securities as of March 31, 2017 decreased 14% to ¥2,026,512 million compared to March 31, 2016.

	As of March 31,		Change	
	2016	2017	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investment in securities by security type:</b>				
Trading securities	¥ 725,821	¥ 569,074	¥ (156,747)	(22)
Available-for-sale securities	1,347,890	1,165,417	(182,473)	(14)
Held-to-maturity securities	114,858	114,400	(458)	0
Other securities	156,223	177,621	21,398	14
Total	¥ 2,344,792	¥ 2,026,512	¥ (318,280)	(14)

Investments in trading securities as of March 31, 2017 decreased 22% compared to March 31, 2016 primarily due to a decrease in the assets under management of variable annuity and variable life insurance contracts. Investments in available-for-sale securities as of March 31, 2017 decreased 14% compared to March 31, 2016. Held-to-maturity securities mainly consist of our life insurance business's investment in Japanese government bonds. Other securities as of March 31, 2017 increased 14% compared to March 31, 2016 mainly due to an increase in investment funds.

For further information, see Note 9 of Item 18. Financial Statements.

***Gains on investment securities and dividends***

	Year ended		Change	
	March 31, 2016	March 31, 2017	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Gains on investment securities and dividends:</b>				
Net gains on investment securities	¥ 31,134	¥ 27,233	¥ (3,901)	(13)
Dividends income, other	4,652	3,095	(1,557)	(33)
Total	¥ 35,786	¥ 30,328	¥ (5,458)	(15)

Note: Income and losses on investment in securities related to our life insurance operations are recorded in life insurance premiums and related investment income in our consolidated statements of income.

Gains on investment securities and dividends decreased 15% to ¥30,328 million in fiscal 2017 compared to fiscal 2016 mainly due to a decrease in net gains on investment securities. Net gains on investment securities decreased 13% to ¥27,233 million in fiscal 2017 compared to fiscal 2016 mainly due to a decrease in gains on sales of securities.

Dividends income, other decreased 33% to ¥3,095 million in fiscal 2017 compared to fiscal 2016.

As of March 31, 2017, gross unrealized gains on available-for-sale securities, including those held in connection with our life insurance operations, were ¥51,905 million, compared to ¥81,231 million as of March 31, 2016. As of March 31, 2017, gross unrealized losses on available-for-sale securities, including those held in connection with our life insurance operations, were ¥6,244 million, compared to ¥16,654 million as of March 31, 2016.

For further information, see Note 22 of Item 18. Financial Statements.

**Table of Contents****Operating leases**

	As of and for the year ended March 31,		Change	
	2016	2017	Amount	Percent (%)
<b>Operating leases:</b>				
Operating lease revenues	¥ 373,910	¥ 398,655	¥ 24,745	7
Costs of operating leases	245,069	243,537	(1,532)	(1)
New equipment acquisitions	463,770	401,913	(61,857)	(13)
Japan	195,170	207,759	12,589	6
Overseas	268,600	194,154	(74,446)	(28)
Investment in operating leases	1,349,199	1,313,164	(36,035)	(3)

Revenues from operating leases in fiscal 2017 increased 7% to ¥398,655 million compared to fiscal 2016 primarily due to an increase in gains on sales of real estate leasing, which are included in operating leases revenues, partially offset by a decrease in gains on sales in operating leases revenues in the auto-business. In fiscal 2016 and 2017, gains from the disposition of operating lease assets were ¥38,340 million and ¥69,265 million, respectively.

Costs of operating leases decreased 1% to ¥243,537 million in fiscal 2017 compared to fiscal 2016 primarily due to a decrease in costs from real estate leasing, despite an increase in depreciation expenses resulting from a year on year increase in the average balance of investment in the auto-business.

New equipment acquisitions related to operating leases decreased 13% to ¥401,913 million in fiscal 2017 compared to fiscal 2016 primarily due to a decrease in purchases of aircraft overseas.

Investment in operating leases as of March 31, 2017 decreased 3% to ¥1,313,164 million compared to March 31, 2016.

	As of March 31,		Change	
	2016	2017	Amount	Percent (%)
<b>Investment in operating leases by category:</b>				
Transportation equipment	¥ 755,425	¥ 788,676	¥ 33,251	4
Measuring and information-related equipment	90,208	86,682	(3,526)	(4)
Real estate	472,021	404,427	(67,594)	(14)
Other	7,935	10,158	2,223	28
Accrued rental receivables	23,610	23,221	(389)	(2)
<b>Total</b>	<b>¥ 1,349,199</b>	<b>¥ 1,313,164</b>	<b>¥ (36,035)</b>	<b>(3)</b>

Investment in transportation equipment operating leases as of March 31, 2017 increased 4% to ¥788,676 million compared to March 31, 2016 primarily due to an increase in new equipment acquisitions in the auto-business. Investment in real estate operating leases as of March 31, 2017 decreased 14% to ¥404,427 million compared to

March 31, 2016, primarily due to sales of real estate in Japan.

For further information, see Note 6 of Item 18. Financial Statements.

*Life insurance*

We reflect all income and losses (other than provision for doubtful receivables and probable loan losses) that we recognize on securities, installment loans, real estate under operating leases and other investments held in

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connection with our life insurance operations as life insurance premiums and related investment income in our consolidated statements of income.

	Year ended March 31,		Change	
	2016	2017	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Life insurance premiums and related investment income and life insurance costs:</b>				
Life insurance premiums	¥ 209,120	¥ 247,427	¥ 38,307	18
Life insurance-related investment income (loss)	(19,699)	48,513	68,212	
Total	¥ 189,421	¥ 295,940	¥ 106,519	56
Life insurance costs	¥ 121,282	¥ 200,158	¥ 78,876	65

	Year ended March 31,		Change	
	2016	2017	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Breakdown of life insurance-related investment income (loss):</b>				
Net income (loss) on investment securities	¥ (22,003)	¥ 57,715	¥ 79,718	
Gains (losses) recognized in income on derivative	1,633	(10,568)	(12,201)	
Interest on loans, income on real estate under operating leases, and others	671	1,366	695	104
Total	¥ (19,699)	¥ 48,513	¥ 68,212	

Life insurance premiums and related investment income increased 56% to ¥295,940 million in fiscal 2017 compared to fiscal 2016.

Life insurance premiums increased 18% to ¥247,427 million in fiscal 2017 compared to fiscal 2016 due to an increase in the number of policies in force.

Life insurance-related investment income was gains of ¥48,513 million in fiscal 2017 compared to losses of ¥19,699 million in fiscal 2016 due to an increase in net income on investment securities. Net income on investment securities increased due to gains on sales of JGBs and a significant increase in investment income from variable annuity and variable life insurance contracts held by HLIKK, caused by the significant market improvement in fiscal 2017. On the other hand, net gains or losses from derivative contracts held to economically hedge the minimum guarantee risk relating to these variable annuity and variable life insurance contracts decreased. In addition, interest on loans, income on real estate under operating leases, and others increased.

Life insurance costs increased 65% to ¥200,158 million in fiscal 2017 compared to fiscal 2016 due to an increase in the number of policies in force and a provision of liability reserve in line with the aforementioned increase in investment income from variable annuity and variable life insurance contracts held by HLIKK.





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	As of March 31,		Change	
	2016	2017	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investments by life insurance operations:</b>				
Trading securities	¥ 704,313	¥ 547,850	¥(156,463)	(22)
Available-for-sale debt securities	711,303	567,741	(143,562)	(20)
Available-for-sale equity securities	18,873	13,341	(5,532)	(29)
Held-to-maturity securities	114,564	114,400	(164)	(0)
Other securities	6	438	432	
<b>Total investment in securities</b>	<b>1,549,059</b>	<b>1,243,770</b>	<b>(305,289)</b>	<b>(20)</b>
Installment loans, real estate under operating leases and other investments	69,020	58,215	(10,805)	(16)
<b>Total</b>	<b>¥ 1,618,079</b>	<b>¥ 1,301,985</b>	<b>¥(316,094)</b>	<b>(20)</b>

Investment in securities as of March 31, 2017 decreased 20% to ¥1,243,770 million compared to March 31, 2016 due to a decrease in trading securities as a result of surrender of variable annuity and variable life insurance contracts held by HLIKK, and available-for-sale debt securities decreased due to sales of JGBs.

For further information, see Note 23 of Item 18. Financial Statements.

**Sales of goods and real estate, Inventories**

	Year ended March 31,		Change	
	2016	2017	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Sales of goods and real estate, Inventories:</b>				
Sales of goods and real estate	¥ 834,010	¥ 1,015,249	¥ 181,239	22
Costs of goods and real estate sold	748,259	928,794	180,535	24
New real estate added	85,087	93,905	8,818	10
Inventories	139,950	117,863	(22,087)	(16)

Sales of goods and real estate increased 22% to ¥1,015,249 million compared to fiscal 2016 due to an increase in gains on sales of goods.

Costs of goods and real estate sold increased 24% to ¥928,794 million compared to fiscal 2016 due to an increase in expenses in costs of goods. We recorded ¥168 million and ¥916 million of write-downs for fiscal 2016 and 2017, respectively. Costs of goods and real estate sold include the upfront costs associated with advertising and creating model rooms.

New real estate added increased 10% to ¥93,905 million in fiscal 2017 compared to fiscal 2016.

Inventories as of March 31, 2017 decreased 16% to ¥117,863 million compared to March 31, 2016.

For further information, see Note 24 of Item 18. Financial Statements.



**Table of Contents****Services, Property under Facility Operations**

	As of and for the year ended March 31,		Change	
	2016	2017	Amount	Percent (%)
<b>Services, Property under Facility Operations</b>				
Services income	¥ 735,186	¥ 737,903	¥ 2,717	0
Services expense	445,387	451,277	5,890	1
New assets added	79,413	68,571	(10,842)	(14)
Japan	78,845	61,275	(17,570)	(22)
Overseas	568	7,296	6,728	
Property under Facility Operations	327,016	398,936	71,920	22

Services income remained flat at ¥737,903 million in fiscal 2017 compared to fiscal 2016 primarily solid contributions of the environment and energy business, in spite of sales of subsidiaries.

Services expense increased 1% to ¥451,277 million in fiscal 2017 compared to fiscal 2016 mainly resulting from the recognition of expenses from the environment and energy business.

New assets added for property under facility operations decreased 14% to ¥68,571 million in fiscal 2017 compared to fiscal 2016 despite investment in electric power facilities and completion of property under facility operations.

Property under facility operations as of March 31, 2017 increased 22% to ¥398,936 million compared to March 31, 2016 due to investment in electric power facilities and the newly acquired subsidiaries.

For further information, see Note 25 of Item 18. Financial Statements.

**Expenses****Interest expense**

Interest expense remained relatively flat in fiscal 2017 at ¥72,910 million compared to ¥72,821 million in fiscal 2016. Our total outstanding short-term debt, long-term debt and deposits as of March 31, 2017 increased 1 % to ¥5,753,059 million compared to ¥5,685,014 million as of March 31, 2016.

The average interest rate on our short-term debt, long-term debt and deposits in domestic currency, calculated on the basis of average monthly balances, decreased to 0.5 % in fiscal 2017, from 0.6 % in fiscal 2016. The average interest rate on our short-term debt, long-term debt and deposits in foreign currency, calculated on the basis of average monthly balances, increased to 2.8% in fiscal 2017, from 2.7% in fiscal 2016. For more information regarding our interest rate risk, see Item 3. Key Information Risk Factors. For more information regarding our outstanding debt, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Short-term and long-term debt and deposits.

**Other (income) and expense, net**

Other (income) and expense, net included a net income of ¥3,729 million during fiscal 2016 and a net income of ¥4,396 million during fiscal 2017. Foreign currency transaction losses (gains) included in other (income) and expense, net included losses of ¥1,850 million in fiscal 2017 compared to gains of ¥27 million in fiscal 2016. We recognized impairment losses on goodwill and other intangible assets included in other (income) and expense, net in the amount of ¥3,196 million in fiscal 2017 compared to ¥325 million of impairment losses on goodwill and other intangible assets during fiscal 2016. For further information on our goodwill and other intangible assets, see Note 13 of Item 18. Financial Statements.

**Table of Contents*****Selling, general and administrative expenses***

	Year ended		Change	
	2016	2017	Amount	Percent (%)
<b>(Millions of yen, except percentage data)</b>				
<b>Selling, general and administrative expenses:</b>				
Personnel expenses	¥ 246,909	¥ 236,818	¥ (10,091)	(4)
Selling expenses	70,379	76,729	6,350	9
Administrative expenses	100,294	99,819	(475)	(0)
Depreciation of office facilities	5,110	5,380	270	5
Total	¥ 422,692	¥ 418,746	¥ (3,946)	(1)

Employee salaries and other personnel expenses accounted for 57% of selling, general and administrative expenses in fiscal 2017, and the remaining portion consists of other expenses, such as rent for office space, communication expenses and travel expenses. Selling, general and administrative expenses in fiscal 2017 decreased 1% year on year mainly due to the deconsolidation of Houlihan Lokey, despite an increase in the number of consolidated subsidiaries.

***Write-downs of long-lived assets***

As a result of impairment reviews we performed in fiscal 2017 for long-lived assets in Japan and overseas, such as golf courses, office buildings, commercial facilities other than office buildings, condominiums, and land undeveloped or under construction, write-downs of long-lived assets decreased 32% to ¥9,134 million in fiscal 2017 compared to fiscal 2016. These write-downs, which are reflected as write-downs of long-lived assets, consisted of impairment losses of ¥1,307 million on six office buildings, ¥3,398 million on eight commercial facilities other than office buildings, ¥386 million on two condominiums, ¥786 million on five parcels of lands undeveloped or under construction, and ¥3,257 million on other long-lived assets, because the assets were classified as held for sale or the carrying amount exceeded the estimated undiscounted future cash flows. In addition, write-downs of other long-lived assets in fiscal 2017 include write-downs of ¥1,156 million of two aircraft. For further information, see Note 26 of Item 18. Financial Statements.

***Write-downs of securities***

Write-downs of securities in fiscal 2017 were mainly for marketable equity securities. In fiscal 2017, write-downs of securities increased 46% to ¥6,608 million in fiscal 2017 compared to ¥4,515 million in fiscal 2016. For further information, see Note 9 of Item 18. Financial Statements.

***Equity in net income of affiliates***

Equity in net income of affiliates decreased in fiscal 2017 to ¥26,520 million compared to ¥45,694 million in fiscal 2016 primarily due to less contributions from investment in affiliates in the Americas compared to fiscal 2016. For further information, see Note 12 of Item 18. Financial Statements.

***Gains on sales of subsidiaries and affiliates and liquidation losses, net***

Gains on sales of subsidiaries and affiliates and liquidation losses, net increased to ¥63,419 million in fiscal 2017 compared to ¥57,867 million in fiscal 2016, due to the favorable profit from sales in the Americas in fiscal 2016 and 2017 and the favorable profit from sales in Japan in fiscal 2017. For further information, see Note 3 of Item 18. Financial Statements.

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**Table of Contents*****Bargain Purchase Gain***

We recognized a bargain purchase gain of ¥5,802 million associated with one of the acquisitions in fiscal 2017 compared to no bargain purchase gain in fiscal 2016. For further information, see Note 3 of Item 18. Financial Statements.

***Provision for income taxes***

Provision for income taxes increased to ¥144,039 million in fiscal 2017 compared to ¥120,312 million in fiscal 2016 primarily due to higher income before income taxes and discontinued operations. For discussion of income taxes, see Note 16 of Item 18. Financial Statements.

***Net income attributable to the noncontrolling interests***

Net income attributable to the noncontrolling interests was recorded as a result of the noncontrolling interests in earnings of certain of our subsidiaries. Net income attributable to the noncontrolling interests in fiscal 2017 was ¥7,255 million, compared to ¥10,002 million in fiscal 2016.

***Net income attributable to the redeemable noncontrolling interests***

Net income attributable to the redeemable noncontrolling interests was recorded as a result of the noncontrolling interests in the earnings of our subsidiaries that issued redeemable stock. Net income attributable to the redeemable noncontrolling interests in fiscal 2017 was ¥432 million, compared to ¥819 million in fiscal 2016. For further information, see Note 18 of Item 18. Financial Statements.

**LIQUIDITY AND CAPITAL RESOURCES****Funding Activities**

We prioritize funding stability, maintaining adequate liquidity, and reducing capital costs. We formulate funding policies that are designed to be resilient to sudden deterioration in financial markets conditions, and then execute our funding activities in accordance with such policies and the actual circumstances of our assets and changes in financial markets. In preparing our management plan, we project funding activities to maintain a balanced capital structure based on projected cash flows, asset liquidity and our liquidity on hand. In implementation, we adjust our funding plan based on changes in the external funding environment and our funding needs in light of our business activities, and endeavor to maintain flexibility in our funding activities.

As part of our funding activities during fiscal 2018, we tried to reinforce our funding structure by diversifying our funding resources, promoting longer maturities, staggering redemption dates and maintaining sufficient liquidity. We also undertook various international funding activities, such as bond offerings outside Japan. We also enhanced our use of longer maturities, employed staggered interest and principal repayment dates and endeavored to reduce refinancing risk by leveling out annual redemption amounts both in borrowing from financial institutions and bonds. As of March 31, 2018, our total balance of cash and cash equivalents and unused committed credit facilities was ¥1,653,911 million. We maintain adequate levels of liquidity and monitor liquidity risk to minimize the effect a sudden market deterioration may have on us and to enable us to sustain our operations.

Our ratio of long-term debt to total debt (excluding deposits) reached 93% as of March 31, 2017 and 2018.



For more information regarding our liquidity risk management, see Risk Management under this Item 5.

**Group Liquidity Management**

ORIX is primarily responsible for accessing liquidity for ORIX Group and for managing the allocation of liquidity to subsidiaries. In managing our capital resources and controlling liquidity risk, we employ various

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measures, including a cash management system for supplying funds to, and receiving funds from, our major domestic subsidiaries, other than regulated subsidiaries like ORIX Bank and ORIX Life Insurance. Our overseas subsidiaries rely primarily on local funding sources such as borrowings from local financial institutions and issuing bonds in local capital markets, but they may also obtain loans from ORIX. We also support liquidity levels of overseas subsidiaries by establishing local commitment lines and maintaining a multi-currency commitment line available to ORIX and certain of its overseas subsidiaries.

ORIX Bank and ORIX Life Insurance are regulated by Japanese financial authorities. They are our main regulated subsidiaries in terms of liquidity controls, although several other subsidiaries also operate under liquidity control related regulations. Under such regulations, ORIX Bank and ORIX Life Insurance employ prescribed measures to monitor liquidity risk and maintain internal policies to manage their portfolios and capital resources on a standalone basis. Each of these subsidiaries met the relevant regulatory threshold relating to measures for monitoring its liquidity risk as of March 31, 2018.

ORIX Bank obtains most of the funds it needs to operate its business through deposit taking. Although ORIX Bank provides loans to several of our domestic subsidiaries in the ordinary course of its business, such loans are subject to a maximum limit set by the Japanese Banking Act. Under such regulations, ORIX Bank may not make loans to other members of ORIX Group in an aggregate amount exceeding a regulatory limit. ORIX Life Insurance underwrites insurance, receives insurance premiums from policyholders, and conducts financing and investment activities, including lending. Lending from ORIX Life Insurance to other members of ORIX Group is subject to regulation, including under the Japanese Insurance Business Act. For these reasons, ORIX Group manages its liquidity separately from ORIX Bank and ORIX Life Insurance.

## **Ratings**

As of the date of this filing, Standard & Poor's has assigned an A- as our counterparty credit rating, Fitch has assigned a A- as our long-term issuer rating, Moody's has assigned a A3 as our long-term issuer rating, and Rating and Investment Information, Inc. (R&I) has assigned an A+ as our issuer rating.

## **Sources of Liquidity**

### ***Borrowings from Financial Institutions***

ORIX Group borrows from a variety of sources, including major banks, regional banks, foreign banks, life insurance companies, casualty insurance companies and financial institutions associated with agricultural cooperatives. As of March 31, 2018, the number of our lenders exceeded 200. We have promoted regular face-to-face communications and established positive working relationships with financial institutions in Japan and overseas. The majority of our loan balances consists of borrowings from Japanese financial institutions. We procured financing through a subordinated syndicated loan (hybrid loan) which has similar characteristics to capital as of March 31, 2017. As of March 31, 2017 and 2018, short-term debt from Japanese and foreign financial institutions were ¥233,371 million and ¥251,860 million, respectively, while long-term debt from financial institutions were ¥2,724,856 million and ¥2,804,357 million, respectively.

### ***Committed Credit Facilities***

We regularly enter into committed credit facilities agreements, including syndicated agreements, with financial institutions to secure liquidity. The maturity dates of these committed credit facilities are staggered to prevent an overlap of contract renewal periods. The total amount of our committed credit facilities as of March 31, 2017 and

2018 were ¥463,643 million and ¥466,164 million, respectively. Of these figures, the unused amount as of March 31, 2017 and 2018 were ¥393,968 million and ¥332,670 million, respectively. A part of the facilities is arranged to be drawn down in foreign currencies by ORIX and certain of our subsidiaries.

The decision to enter into a committed credit facility is made based on factors including our balance of cash and cash equivalents and repayment schedules of short-term debt such as CP.

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**Table of Contents*****Debt from the Capital Markets***

Our debt from capital markets is mainly composed of bonds, MTNs, CP, and securitization of leases, loans receivables and other assets.

***Bonds and MTNs***

We regularly issue straight bonds and MTNs domestically and internationally to diversify our funding sources and maintain longer liability maturities. In fiscal 2018, we issued ¥72,000 million bonds in Japan. We also issued amounts equal to ¥237,140 million of bonds and MTNs outside Japan.

The total balance of straight bonds and MTNs issued as of March 31, 2017 and 2018 were ¥885,058 million and ¥940,089 million, respectively, of which straight bonds and MTNs amounting to ¥55,845 million and ¥71,524 million, respectively, were issued by foreign subsidiaries.

As of March 31, 2017 and 2018, the balance of straight bonds issued by ORIX for domestic institutional investors were ¥254,440 million and ¥204,517 million, respectively, while the balance of straight bonds issued by ORIX for individual investors were ¥379,166 million and ¥279,221 million, respectively. The balance of straight bonds and MTNs issued outside Japan were ¥193,744 million and ¥382,827 million as of March 31, 2017 and 2018, respectively.

We plan to continue to issue straight bonds and MTNs in a balanced manner to institutional and individual investors both inside and outside Japan in line with our strategy of maintaining longer maturities and diversified funding sources.

***CP***

We offer CP as a direct financing source, and have successfully obtained a diverse range of investors such as investment trusts, life insurance companies, casualty insurance companies and other financial institutions, as well as private corporations. We consider our liquidity levels and stagger the dates of issuance and maturity over time so as to avoid significant overlap. The balance of outstanding CP as of March 31, 2017 and 2018 were ¥50,096 million and ¥54,894 million, respectively.

***Securitization***

We securitize leases and loan receivables and other assets in Japan and securitize loan receivables outside Japan. We recognize liabilities consolidated with such investments as our liabilities when required under applicable accounting standards. The total amount of payables under securitized lease and loan receivables and other assets as of March 31, 2017 and 2018 were ¥245,070 million and ¥82,058 million, respectively.

***Deposits***

ORIX Bank and ORIX Asia Limited each accept deposits from customers. These deposits taking subsidiaries are regulated institutions, and loans from these subsidiaries to ORIX Group entities are subject to maximum regulatory limits.

The majority of deposits are attributable to ORIX Bank, which attracts both corporate and retail deposits, and which has seen sustained growth in deposits outstanding. Deposit balances of ORIX Bank as of March 31, 2017 and 2018 were ¥1,611,759 million and ¥1,747,485 million, respectively.



**Table of Contents****Short-term and long-term debt and deposits****Short-term Debt**

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
<b>Short-term debt:</b>				
Borrowings from financial institutions	¥ 233,371	¥ 251,860	¥ 18,489	8
Commercial paper	50,096	54,894	4,798	10
Total short-term debt	¥ 283,467	¥ 306,754	¥ 23,287	8

Note: There were no liabilities of consolidated VIEs as of March 31, 2017 and 2018, for which creditors (or beneficial interest holders) do not have recourse to the general credit of the Company and subsidiaries. Short-term debt as of March 31, 2018 was ¥306,754 million, representing 7% of total debt (excluding deposits) as of March 31, 2018, while the ratio was 7% of total debt excluding deposits as of March 31, 2017. As of March 31, 2018, 82% of short-term debt was borrowings from financial institutions.

**Long-term debt**

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
<b>Long-term debt:</b>				
Borrowings from financial institutions	¥ 2,724,856	¥ 2,804,357	¥ 79,501	3
Bonds	688,488	756,865	68,377	10
Medium-term notes	196,570	183,224	(13,346)	(7)
Payable under securitized lease, loan receivables and investment in securities	245,070	82,058	(163,012)	(67)
Total long-term debt	¥ 3,854,984	¥ 3,826,504	¥ (28,480)	(1)

Note: The total amount includes liabilities of consolidated VIEs, for which creditors (or beneficial interest holders) do not have recourse to the general credit of the Company and subsidiaries. Such liabilities as of March 31, 2017 and 2018 were ¥438,473 million and ¥263,973 million, respectively. Long-term debt as of March 31, 2018 was ¥3,826,504 million, representing 93% of total debt (excluding deposits) as of March 31, 2018, while the ratio was 93% of total debt excluding deposits as of March 31, 2017. Borrowings from financial institutions comprised 73% of the long-term debt as of March 31, 2018.

Approximately 48% of interest paid on long-term debt in fiscal 2018 was fixed rate interest, with the remainder being floating rate interest based mainly on TIBOR or LIBOR.

For information regarding the repayment schedule of our long-term debt and interest rates for long and short-term debt, see Note 14 of Item 18. Financial Statements.

We have entered into interest rate swaps and other derivative contracts to manage risk associated with fluctuations in interest rates. For information with respect to derivative financial instruments and hedging, see Note 29 of Item 18. Financial Statements.

**Table of Contents*****Deposits***

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Deposits	¥ 1,614,608	¥ 1,757,462	¥ 142,854	9

Note: VIEs did not have any deposits as of March 31, 2017 and 2018.

For further information with respect to deposits, see Note 15 of Item 18. Financial Statements.

**CASH FLOWS**

Our cash flows are primarily generated from the followings:

cash outflows and inflows which are generated primarily from costs of inventories, sales of inventories, services income and services expense classified as cash flows from operating activities;

cash outflows and inflows which are generated primarily from purchases of lease equipment, principal payments received under direct financing leases, execution of installment loans to customers and principal payments received under installment loans classified as cash flows from investing activities; and

cash outflows and inflows which are generated primarily from proceeds from short-term and long-term debt, repayment of short-term and long-term debt and deposits due to customers classified as cash flows from financing activities.

The use of cash is heavily dependent on the volume of operating assets for new business. As new business volumes for assets such as leases and loans increase, we require more cash to meet the needs, while a decrease in new business volumes results in a less use of cash and an increase in debt repayment.

For cash flow information regarding interest and income tax payments, see Note 4 of Item 18. Financial Statements.

**Year Ended March 31, 2018 Compared to Year Ended March 31, 2017**

Cash and cash equivalents increased by ¥281,371 million to ¥1,321,241 million compared to March 31, 2017.

Cash flows provided by operating activities were ¥546,624 million during fiscal 2018, down from ¥583,955 million during fiscal 2017. This change resulted primarily from an increase in payment of income taxes.

Cash flows used in investing activities were ¥411,578 million during fiscal 2018, up from ¥237,608 million during fiscal 2017. This change resulted primarily from increases in purchases of lease equipment and investment in affiliates.



Cash flows provided by financing activities were ¥143,582 million during fiscal 2018, compared to the outflow of ¥33,459 million during fiscal 2017. This change resulted primarily from an increase in proceeds from debt with maturities longer than three months and a decrease in repayment of debt with maturities longer than three months.

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**Year Ended March 31, 2017 Compared to Year Ended March 31, 2016**

Cash and cash equivalents increased by ¥309,450 million to ¥1,039,870 million compared to March 31, 2016.

Cash flows provided by operating activities were ¥583,955 million during fiscal 2017, up from ¥510,562 million during fiscal 2016, primarily resulting from a change from an increase to a decrease in trade notes, accounts and other receivable and a decrease in a decrease in trade notes, accounts and other payable.

Cash flows used in investing activities were ¥237,608 million during fiscal 2017, down from ¥552,529 million during fiscal 2016, primarily resulting from a decrease in purchases of available-for-sale securities.

Cash flows used in financing activities were ¥33,459 million during fiscal 2017, down from ¥48,001 million during fiscal 2016, primarily resulting from an increase in deposits due to customers.

**COMMITMENTS FOR CAPITAL EXPENDITURES**

As of March 31, 2018, we had commitments for the purchase of equipment to be leased in the amount of ¥341 million. For information on commitments, guarantees and contingent liabilities, see Note 32 of Item 18. Financial Statements.

**OFF BALANCE SHEET ARRANGEMENTS**

**USE OF SPECIAL PURPOSE ENTITIES**

We periodically securitize various financial assets such as lease receivables and loan receivables. These securitizations allow us to access the capital markets, provide us with alternative sources of funding and diversify our investor base and help us to mitigate, to some extent, credit risk associated with our customers and risk associated with fluctuations in interest rates.

In the securitization process, the assets for securitization are sold to SPEs, which issue asset-backed securities to investors.

We expect to continue to utilize SPE structures for securitization of assets. For further information on our transfer of financial assets, see Note 10 of Item 18. Financial Statements.

**Investment Products**

We provide investment products to our customers that employ a contractual mechanism known in Japan as a *kumiai*, which is in effect a type of SPE. We arrange and market *kumiai* products to investors as a means to finance the purchase of aircraft, ships or other large-ticket items to be leased to third parties. A portion of the funds necessary to purchase the item is contributed by such investors, while the remainder is borrowed by the *kumiai* from one or more financial institutions in the form of a non-recourse loan. The *kumiai* investors (and any lenders to the *kumiai*) retain all of the economic risks and rewards in connection with the purchase and leasing activities of the *kumiai*, and all related gains or losses are recorded on the financial statements of investors in the *kumiai*. We are responsible for the arrangement and marketing of these products, and may act as servicer or administrator in *kumiai* transactions. Fee income for arranging and administering these transactions is recognized in our consolidated financial statements. In most *kumiai* transactions, excluding some *kumiai* and SPE, we do not guarantee or otherwise have any financial commitments or exposure with respect to the *kumiai* or its related SPE and, accordingly, their assets are not reflected

on our consolidated balance sheet.

**Table of Contents****Other Financial Transactions**

We occasionally enter into loans, equity or other investments in SPEs in connection with finance transactions related to aircraft, ships and real estate, as well as transactions involving investment funds, in addition to real estate purchases and development projects. All transactions involving use of SPE structures are evaluated to determine whether we hold a variable interest that would result in our being defined as the primary beneficiary of the SPE. When we are considered to own the primary beneficial interest in the SPEs, the SPEs are fully consolidated into our consolidated financial statements. In all other circumstances our loan, equity or other investments are recorded on our consolidated balance sheets as appropriate.

See Note 11 of Item 18. Financial Statements for further information concerning our SPEs.

**RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.**

Not applicable.

**TREND INFORMATION**

See the discussion under Results of Operations and Liquidity and Capital Resources.

**COMMITMENTS**

The table below sets forth the maturities of guarantees and other commitments as of March 31, 2018.

	Amount of commitment expiration per period				
	Total	Within 1 year	1-3 years	3-5 years	After 5 years
	(Millions of yen)				
<b>Commitments:</b>					
Guarantees	¥ 644,720	¥ 90,059	¥ 181,920	¥ 240,907	¥ 131,834
Committed credit lines and other	397,111	132,969	79,595	9,660	174,887
Total commercial commitments	¥ 1,041,831	¥ 223,028	¥ 261,515	¥ 250,567	¥ 306,721

One of our U.S. subsidiaries is authorized to underwrite, originate, fund and service multi-family and senior housing loans without prior approval from Fannie Mae under Fannie Mae's Delegated Underwriting and Servicing program. As part of this program, Fannie Mae provides a commitment to purchase the loans.

In return for this delegated authority, the subsidiary guarantees the performance of certain housing loans transferred to Fannie Mae and has the payment or performance risks of the guarantees to absorb some of the losses when losses arise from the transferred loans. The amount attributable to the guarantee included in the table above is ¥166,906 million as of March 31, 2018.

The subsidiary makes certain representations and warranties in connection with the sale of loans through Fannie Mae, including among others, that: the mortgage meets Fannie Mae requirements; there is a valid lien on the property; the relevant transaction documents are valid and enforceable; and title insurance is maintained on the property. If it is determined that a representation and warranty has been breached, the subsidiary may be required to repurchase the

related loans or indemnify Fannie Mae for any related losses incurred. The subsidiary had no such repurchase claims during fiscal 2018.

For a discussion of commitments, guarantee and contingent liabilities, see Note 32 of Item 18. Financial Statements.

**Table of Contents****TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

The table below sets forth the maturities of contractual cash obligations as of March 31, 2018.

	Payments due by period				After 5 years
	Total	Within 1 year	1-3 years	3-5 years	
(Millions of yen)					
<b>Contractual cash obligations:</b>					
Deposits	¥ 1,757,462	¥ 1,123,696	¥ 540,297	¥ 92,969	500
Long-term debt	3,826,504	652,061	1,006,176	949,572	1,218,695
Operating leases	67,671	7,939	13,035	12,174	34,523
Unconditional purchase obligations of lease equipment	341	87	229	25	
Unconditional noncancelable contracts for computer systems	11,830	5,280	5,437	1,109	4
<b>Interest rate swaps:</b>					
Notional amount (floating to fixed)	296,902	67,725	40,978	40,313	147,886
Notional amount (fixed to floating)	1,517	1,372		94	51
Total contractual cash obligations	¥ 5,962,227	¥ 1,858,160	¥ 1,606,152	¥ 1,096,256	¥ 1,401,659

Items excluded from the above table include short-term debt of ¥306,754 million, trade notes, accounts and other payable of ¥262,301 million and policy liabilities and policy account balances of ¥1,511,246 million as of March 31, 2018. For information on pension plans and derivatives, see Notes 17 and 28 of Item 18. Financial Statements. We expect to fund commitments and contractual obligations from one, some or all of our diversified funding sources depending on the amount to be funded, the time to maturity and other characteristics of the commitments and contractual obligations.

For a discussion of debt and deposit-related obligations, see Notes 14 and 15 of Item 18. Financial Statements.

**RECENT DEVELOPMENTS****NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED**

In May 2014, Accounting Standards Update 2014-09 ( Revenue from Contracts with Customers ASC 606 ( Revenue from Contracts with Customers )) was issued. The core principle of this Update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply a five-step model to determine when to recognize revenue, and in what amount. The five steps to apply the model are:

Identify the contract(s) with a customer

Identify the performance obligations in the contract

Determine the transaction price

Allocate the transaction price to the performance obligations in the contract

Recognize revenue when (or as) the entity satisfies a performance obligation

This Update requires an entity to disclose more information about contracts with customers than under the current disclosure requirements.

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In April 2016, Accounting Standards Update 2016-10 ( Identifying Performance Obligations and Licensing ASC 606 ( Revenue from Contracts with Customers )) was issued as an amendment of the new revenue standard. This Update adds further guidance on identifying performance obligations and also improves the operability and understandability of the licensing implementation guidance. The amendments do not change the core principle of the guidance in ASC 606.

In May 2016, Accounting Standards Update 2016-12 ( Narrow-Scope Improvements and Practical Expedients ASC 606 ( Revenue from Contracts with Customers )) was issued as an amendment of the new revenue standard. This Update (1) clarifies the objective of the collectibility criterion for applying paragraph 606-10-25-7; (2) permits an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; (3) specifies that the measurement date for non-cash consideration is contract inception; (4) provides a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations; (5) clarifies that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application, and (6) clarifies that an entity that retrospectively applies ASC 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption.

These Updates are effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017. Early adoption is permitted only for the fiscal year beginning after December 15, 2016, and interim periods within the fiscal year. An entity should apply the amendments in these Updates using either a retrospective method or a cumulative-effect method. The entity may elect some optional practical expedients when applying these Updates. The entity using the cumulative-effect method would recognize the cumulative effect of initially applying these Updates as an adjustment to the opening balance of retained earnings or net assets at the date of initial application. The Company and its subsidiaries will adopt these Updates on April 1, 2018, using the cumulative-effect method, for only those contracts that are not completed at the date of initial adoption. These Updates require a number of new disclosures to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The scope of these Updates excludes lease contracts, financial instruments and other contractual rights and obligations within the scope of other ASC Topics including loans, investments in securities and derivatives and also excludes contracts within the scope of ASC Topic 944 ( Financial Services Insurance ). Based on the Company and its subsidiaries' assessment and estimates, the impact of the application of these Updates will result in a change in the timing of revenue recognition and accounting policy for performance fees received from customers regarding asset management business. Currently, certain subsidiaries recognize such fees when earned based on the performance of the asset under management, while other subsidiaries recognize the fees on accrual basis over the period in which services are performed. New guidance requires recognizing such fees as revenue to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Additionally, there will be changes in the timing of revenue recognition and accounting policy for the certain project-based orders in real estate business for which the Company and its subsidiaries currently apply the percentage-of-completion or completed contract method. Under the new guidance, there are specific criteria to determine if a performance obligation should be satisfied over time or at a point in time. In some cases, the revenue recognition timing will change from current practice based on applying the specific criteria under the new guidance. Further, the Company and its subsidiaries will expand its disclosures regarding these revenue streams, to discuss contract balances, performance obligations, significant judgments made, and contract costs. The adoption of these Updates will not have material effect on the Company and its subsidiaries' results of operations or financial position.



In January 2016, Accounting Standards Update 2016-01 ( Recognition and Measurement of Financial Assets and Financial Liabilities - ASC 825-10 ( Financial Instruments - Overall )) was issued. This Update revises accounting related to the classification and measurement of equity investments. This Update also revises

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the presentation of certain fair value changes for financial liabilities measured at fair value. Additionally, this Update amends certain disclosure requirements associated with the fair value of financial instruments. This Update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early application to financial statements of fiscal years or interim periods that have not yet been issued is permitted as of the beginning of the fiscal year of adoption. The amendments in this Update should be applied by means of cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. And the amendments relate to equity investments without readily determinable fair value are to be applied prospectively. The Company and its subsidiaries will adopt this Update on April 1, 2018. The impact of adopting this Update will result in recognizing unrealized changes in fair value of equity investments through earnings rather than other comprehensive income. Equity investments currently accounted for under the cost method of accounting will be accounted for either at fair value with changes in fair value recognized in earnings or using alternative method that requires carrying value to be adjusted by using subsequent observable transactions. The effect of the adoption of this Update on the Company and its subsidiaries' financial position at the adoption date will be a decrease of ¥2,899 million in accumulated other comprehensive income and an increase of ¥2,899 million in retained earnings in the consolidated balance sheets.

In February 2016, Accounting Standards Update 2016-02 (ASC 842 ( Leases )) was issued. This Update requires a lessee to recognize most leases on the balance sheet. Lessor accounting remains substantially similar to current U.S. GAAP but with some important changes. This Update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted. The amendments in this Update should be applied at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. The Company and its subsidiaries will adopt this Update on April 1, 2019. Based on the Company and its subsidiaries' initial assessment and best estimates to date, the impact of the application of the Update will likely result in gross up of right-of-use assets and corresponding lease liabilities principally for operating leases where it is the lessee, such as ground leases and office and equipment leases. Other than the impact that have been currently identified, the Company and its subsidiaries continue to evaluate the effect that the adoption of this Update will have on the Company and its subsidiaries' results of operations or financial position, as well as changes in disclosures required by this Update.

In June 2016, Accounting Standards Update 2016-13 ( Measurement of Credit Losses on Financial Instruments ASC 326 ( Financial Instruments Credit Losses )) was issued. This Update significantly changes how companies measure and recognize credit impairment for many financial assets. The new current expected credit loss model requires companies to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets that are within the scope of this Update. This Update also makes targeted amendments to the current impairment model for available-for-sale debt securities. This Update is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments in this Update should be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. Early application is permitted for fiscal year beginning after December 15, 2018, including interim periods within the fiscal year. The Company and its subsidiaries will adopt this Update on April 1, 2020. The Company and its subsidiaries continue to evaluate the effect that the adoption of this Update will have on the Company and its subsidiaries' results of operations or financial position, as well as changes in disclosures required by this Update.

In August 2016, Accounting Standards Update 2016-15 ( Classification of Certain Cash Receipts and Cash Payments ASC 230 ( Statement of Cash Flows )) was issued. This Update amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and cash payments in the statement of cash flows. This Update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is

permitted. This Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company and its subsidiaries will adopt this Update on April 1, 2018. Generally, the effect of adopting this Update on the Company and its subsidiaries' statement of cash flows will depend on future transactions.

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In October 2016, Accounting Standards Update 2016-16 ( Intra-Entity Transfers of Assets Other Than Inventory ASC 740 ( Income Taxes )) was issued. This Update eliminates the exception to defer the income tax consequences of intra-entity transfers of assets other than inventory until the assets are ultimately sold to an outside party and requires the recognition of the current and deferred tax consequences when those transfers occur. This Update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. This Update should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company and its subsidiaries will adopt this Update on April 1, 2018. The effect of the adoption of this Update on the Company and its subsidiaries financial position at the adoption date will be an increase of ¥3,772 million in retained earnings in the consolidated balance sheets.

In November 2016, Accounting Standards Update 2016-18 ( Restricted Cash ASC230 ( Statement of Cash Flows )) was issued. This Update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This Update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company and its subsidiaries will adopt this Update on April 1, 2018. The Company and its subsidiaries are currently evaluating the effect that the adoption of this Update will have on the Company and its subsidiaries statement of cash flows.

In January 2017, Accounting Standards Update 2017-04 ( Simplifying the Test for Goodwill Impairment ASC 350 ( Intangible Goodwill and Other )) was issued. This Update eliminates Step 2 from the current goodwill impairment test. Instead, goodwill impairments would be measured by the amount by which the carrying amount exceeds the reporting unit's fair value. This Update also eliminates the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it is more likely than not that the goodwill is impaired, to perform Step 2 of the goodwill impairment test. This Update is effective for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates on or after January 1, 2017. The Company and its subsidiaries will adopt this Update on April 1, 2020. Generally, the effect of adopting this Update on the Company and its subsidiaries results of operation or financial position will depend on the outcomes of future goodwill impairment tests.

In August 2017, Accounting Standards Update 2017-12 ( Targeted Improvements to Accounting for Hedging Activities ASC 815 ( Derivatives and Hedging )) was issued. This Update changes the recognition and presentation requirements of hedge accounting including eliminating the requirement to separately measure and report hedge ineffectiveness and presenting all items that affect earnings in the same income statement line as the hedged item. This Update is effective for fiscal years beginning after December 15, 2018, and interim period within those fiscal years. Early adoption is permitted, including in an interim period. For cash flow hedges and net investment hedges existing at the date of adoption, an entity should apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of fiscal year that an entity adopts the amendment in this Update. The amended presentation and disclosure guidance is required only prospectively. At present, the Company and its subsidiaries will adopt this Update on April 1, 2019. The Company and its subsidiaries are currently evaluating the effect that the adoption of this Update will have on the Company and its subsidiaries results of operations or financial position.



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**RISK MANAGEMENT**

**Group-Wide Risk Management System**

***Risk Management System***

ORIX Group monitors and manages the risks relating to Group businesses through its risk management system. In addition to the credit department, which primarily monitors risks related to individual transactions, each business unit has designated staff responsible for managing risks at the business unit level. The results are reported to the Investment and Credit Committee at meetings held three times a month, to the Group Executive Officer Committee at meetings generally held once every two months and to the board of directors at meetings held on a regular basis for evaluation, and the relevant executive officers take measures deemed appropriate to address identified risks.

***Risk Control***

ORIX Group allocates management resources by taking into account Group-wide risk preferences based on management strategies as well as the strategy of individual business units. Our board of directors and executive officers evaluate the performance and profitability of each business unit, and the executive officers take responsive measures they deem necessary to control risk. This process enables us to control our balance sheet and allocate more management resources to business units viewed as having greater growth potential.

ORIX Group, in addition to monitoring by business unit, monitors risks on an individual transaction and total portfolio basis.

For individual transactions relating to business transactions, the credit department evaluates the operating environment, strategies, and potential risks and profitability of each transaction prior to execution, and reports on such individual transactions to the Investment and Credit Committee for review. Changes to the operating environment and cash flow are monitored after transaction execution, and transactions for which there has been a major change in circumstances or strategy are then reported to the appropriate executive officers. In addition, individual business units conduct their own risk analysis by analyzing trends in relevant industries to control risks for individual transactions.

In analyzing a portfolio, the credit department monitors the following characteristics from a Group-wide perspective: business type, region, transaction type, risk type, asset quality status and concentration status of major debtors. The corporate planning department monitors risks at the corporate level, including market risk and liquidity risk in cooperation with the treasury department and the credit department.

**Management of Principal Risks**

We recognize that credit risk, business risk, market risk, liquidity risk (risk relating to funding), compliance risk, legal risk information asset risk and operational risk are the principal risks we face, and we manage each of these risks according to its characteristics.

***Credit Risk Management***

We define *credit risk* as uncertainty regarding future recovery of investments caused by fluctuations in cash flow from debtors and investees.

To analyze credit risk, we evaluate the adequacy of collateral and guarantees, the securitization of receivables and the diversification of debtors and their business types. A typical practice is to conduct a comprehensive customer credit evaluation based on the customer's financial position, cash flow, underlying security interests, profitability and other factors of individual credit transactions. Moreover, an analysis of our portfolio and measures to establish appropriate credit limits allow us to control exposure to potentially higher risk markets.

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We recognize that certain assets that require extra monitoring, including credit extended to debtors who have petitioned for bankruptcy, civil rehabilitation or other insolvency proceedings, or whose bank transactions have been suspended, bills have been dishonored, or debts have not been collected for three months or more. The relevant business units, in cooperation with the credit department, take steps to secure collateral or other guarantees and to begin the collection process. The accumulated collection knowhow ranging from sending an initial reminder to actively seizing collateral is consolidated in the credit department and is reflected in our evaluation criteria for individual credit transactions and portfolio analysis.

### ***Business Risk Management***

We define *business risk* as uncertainties related to new business areas, potential obsolescence of the products or services we offer or a decline in their quality, and variability in market prices for the types of products or services we offer.

To address uncertainties related to new business areas, we monitor business plans and operations using scenario analyses and stress tests. We also evaluate and verify the cost of withdrawal from a business or business area.

For products and services we offer, in addition to monitoring quality, we regularly review the content of our product and services line up in response to changes in the business environment and evolving customer needs and endeavor to maintain or improve their quality.

A principal risk relating to operating leases is fluctuation in the residual value of leased properties. To control this risk, we monitor our leased properties inventory, the relevant market environments and the overall business environment. We limit our operating leases to leased properties and other assets with high versatility that are comparatively easy to re-lease, and evaluate the sale of such properties and other assets depending on changes in market conditions.

We endeavor to reduce the risk related to fluctuation in market prices for real estate by strengthening our cash flow through careful management of our rental income, vacancy rates and expenses related to capital expenditures.

### ***Market Risk Management***

We define *market risk* as the risk of changes in the fair value of assets and liabilities caused by changes in market variables, such as interest rates, exchange rates and stock prices.

We endeavor to comprehensively verify and understand market risks and have established and maintain Group-wide ALM rules to address such risks.

Interest rate risk is comprehensively evaluated based on factors such as the expected impact of interest rate changes on periodic profit and loss and/or the balance sheet, the assets and liabilities positions and the funding environment. The analysis methods we use are modified, as required, depending on the situation.

We generally manage exchange rate risk by using foreign currency-denominated loans, foreign exchange contracts and currency swaps to hedge exchange rate volatility in our business transactions in foreign currencies and overseas investments. We monitor and manage exchange rate risk relating to unhedged foreign currency-denominated assets and retained earnings of foreign subsidiaries using indicators such as VaR (value at risk) and adjusting hedge positions as needed based on changes in the market environment at any given time.



We manage counterparty credit risk and other risks involved in hedging derivative transactions in accordance with internal rules on derivative transaction management.

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For assets under management in our banking business, our life insurance business and our overseas operations, we regularly monitor monetary policies, macroeconomic indicators and securities and financial market trends and country risk, and we manage our asset portfolios by analyzing individual security price movements (both gains and losses). Market volatility is managed according to guidelines that include fixed loss amounts and decreases in position. Our credit department monitors our compliance with the guidelines.

For quantitative and qualitative analysis information on market risk, please see Item 11. Quantitative and Qualitative Disclosures about Market Risk.

### ***Liquidity Risk Management (Risk Management Relating to Funding)***

We define *liquidity risk* as the risk that we will be unable to obtain required funds or that we will be forced to procure funds at an unusually high rate of interest due to market turmoil, a sharp deterioration in the financial condition of the ORIX Group or other reasons.

To reduce liquidity risk, we diversify fund procurement methods and sources and constantly monitor liquidity on hand. To manage liquidity on hand, we project future cash flows and analyze liquidity risk using hypothetical stress scenarios. We take necessary measures so that our businesses may withstand adverse market changes.

The effect on the business of each subsidiary is monitored by ascertaining liquidity risk in each subsidiary and in every country in which ORIX operates. We take appropriate measures to mitigate liquidity risk, including through such action as parent-to-subsiary lending.

ORIX Bank and ORIX Life Insurance are engaged in retail financial activities for individual customers and are regulated by Japanese financial authorities. They are required to manage liquidity risk independently from other ORIX Group companies based on their internal regulations formulated according to the relevant regulations.

ORIX Bank maintains liquidity levels required by Japanese financial regulations by holding highly liquid assets such as cash and government and corporate bonds and by setting an upper limit for capital markets-based funding. In addition, ORIX Bank regularly monitors the status of its liquidity, estimates the tightness of cash flows under different scenarios and conducts stage-by-stage management of liquidity risk accordingly.

ORIX Life Insurance conducts stress tests on insured events and manages its liquidity requirements by holding highly liquid assets such as cash and cash equivalents and securities above a certain ratio against the balance of a liability reserve and by setting maximum limits for holding held-to-maturity securities.

### ***Compliance Risk Management***

We define *compliance risk* as the risk of financial loss, regulatory sanction or damage to our reputation resulting from a failure by ORIX Group to comply with applicable laws and regulations regarding ORIX Group's business activities and/or a failure to comply with ORIX Group's corporate philosophy, internal policies, social norms rules and procedures.

It is the policy of ORIX Group to promote a culture of compliance, emphasizing high standards of ethical behavior at all levels of the organization, and to comply fully with applicable laws and regulations as well as corporate policies through robust and comprehensive compliance programs developed and maintained across all business units, corporate departments and support areas of the organization.

In order to lower the levels of risks that we deem significant at the Group level, the compliance department requires each department of the ORIX Group to formulate an annual compliance plan and monitors compliance

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risks within the ORIX Group in order to reduce such risks. By implementing programs that sustain a culture of compliance, the compliance department seeks to mitigate compliance risk and to prevent the occurrence of serious incidents, and thereby contribute to the sound business and management of the ORIX Group.

In addition, ORIX Group strives to raise awareness for compliance matters among its executives and employees by establishing and disseminating various regulations in accordance with the ORIX Group Principles of Conduct, which sets forth the ORIX Group's principles of compliance.

### ***Legal Risk Management***

We define *legal risk* as the failure to comply with laws and regulations applicable to ORIX Group's business and corporate management and the resulting legal liability as well as business disadvantages that may arise therefrom.

To avoid, reduce and prevent transactional legal risk in Japan, we generally require that the credit department, the legal department and the compliance department each be involved in evaluating and/or executing transactions. In addition to establishing and maintaining internal rules designed to facilitate compliance with applicable laws that are currently in effect, we take steps to ensure that we are in compliance with new laws and revisions to existing laws.

For transactional agreements relating to business transactions, we have established an approval process involving the legal department in accordance with our prescribed internal rules. In addition, depending on the size and importance of a given transaction, we may also seek advice from outside counsel. To ensure that proper legal procedures are followed in connection with actual or potential disputes and litigation, we require that the legal department, the compliance department and the credit department each be involved in the management of such disputes and litigation, including lawsuits that have been, or are expected to be, brought against us and lawsuits that we bring, or expect to bring, against third parties.

The legal department manages intellectual property rights and takes necessary protective measures if and immediately if and when an actual or potential infringement of ORIX Group's intellectual property rights is discovered.

Overseas, each Group company works to avoid, reduce and prevent legal risks by utilizing in-house legal functions and, as necessary, by engaging outside lawyers and other advisers.

### ***Information Asset Risk Management***

We define *information asset risk* as the risk of loss caused by loss, damage or leakage of information or failure of our information systems.

ORIX Group has established policies regarding the use of information systems and information management systems for the proper handling of information and information about officers and employees.

The IT planning department and ORIX Computer Systems Corporation endeavor to reduce the risk of system failure within the ORIX Group, including from cyber-attack and damage to information security, through the maintenance operation and management of internal systems. We have also created a system for responding to information security incidents.

We have also established internal regulations concerning our information security management system, basic policy, management standards, education and audits.



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### ***Operational Risk Management***

We define *operational risk* as the risk of loss resulting from damages, losses, adverse effects or harm to our reputation caused by inadequate or failed internal processes for business execution or prevention of human error or by a failure in operations due to external events such as natural disasters. We also include risk of failure in our fiduciary responsibility to exercise properly our discretionary rights for those customers and clients for whom we are acting as a fiduciary as such risk may lead to reputational and other damage.

We have established internal rules to manage risks associated with natural disasters, which are designed to protect management resources and minimize losses while giving priority to the safety of our executives and employees.

The internal audit department conducts monitoring activities based on an annual internal audit plan that includes monitoring of material operational risks. The department endeavors to prevent the occurrence of events that could negatively affect Group management and seeks to strengthen the risk management function through monitoring activities.

### ***Individual Business Risk Management***

We engage in a broad spectrum of businesses, including financial service operations. We seek to perform complete and transparent monitoring and risk management according to the characteristics of each business segment.

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

Credit risk is the main risk of the Corporate Financial Services segment.

After individual transactions have been executed, the Corporate Financial Services segment regularly monitors the transaction's performance and related collateral, as well as collection from customers whose balances exceed specified levels. The credit department regularly evaluates customers with large credit balances.

Within this segment, we analyze current conditions and the outlook for specific business types and industries, including the potential impact on customers while making decisions about future transactions in that specific business type or industry.

For assets requiring extra monitoring, particularly in transactions secured by real estate, we take various measures such as capitalizing on our network of real estate-related departments to sell properties or introduce tenants.

#### ***Maintenance Leasing Segment***

Business risk and credit risk are the main risks of the Maintenance Leasing segment.

To manage the risk of changes in the market value of property under operating leases, we continuously monitor market conditions and fluctuations in the resale value of leased property and adjust residual value estimates of leased property in new transactions accordingly.

Cost fluctuation is a risk when providing various services such as outsourcing. In response to this, we analyze initial cost planning and performance, monitor future forecasts and control costs at an appropriate level.

In addition, our services might fall short of customer expectations due to changes in the operating environment or changes in and diversification of client needs. We monitor our service quality quantitatively and qualitatively and continuously strive to improve our services in line with the operating environment.

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We also conduct credit examinations of individual transactions to manage credit risk.

### *Real Estate Segment*

Business risk is the main risk of the Real Estate segment, which includes real estate development, rental, management, asset management and operation of a real estate investment trust and a real estate investment advisory business.

With respect to our real estate investment, before making an investment decision we evaluate the actual cash flow performance of the target as against the initial plan and forecasts, and monitor investment strategies and schedules after execution. Upon a major divergence from the initial forecast, we reevaluate our strategy. In addition, when we invest in large scale or long-term projects, we consider diversifying risk by making joint investments with our partners.

For development and leasing properties, we monitor development and retention schedules and net operating income yield. We capitalize on the Group's network to improve occupancy rates and promote sales.

In our facility operation business, we monitor performance indicators such as occupancy and utilization rates and profitability. We conduct market analysis and take initiatives to improve the desirability of our facilities, such as through renovations. To improve the quality of our services and facilities, we take into consideration customers feedback and also implement training programs for our employees.

### *Investment and Operation Segment*

Credit risk, market risk and business risk are the main risks of the Investment and Operation segment.

In the environment and energy-related businesses, for renewable energy, energy conservation and resource and waste processing operations, we endeavor to minimize business risk by deploying appropriate equipment and technology, forming alliances with expert operators and arranging our business structure to allow for changes in the business environment and the business content.

When making investment decisions in the principal investment business, we conduct a credit evaluation, analyzing the investee's credit risk and assessing its cash flow, as is done for credit examinations. In addition, we perform a multi-faceted evaluation of the characteristics of the business operation and investment scheme, in which administrative departments such as accounting and legal are also involved. After the initial investment, individual transactions are monitored for divergence from the initial scenario.

We emphasize credit risk when increasing the corporate value of a company since cash flow is a key-factor during such period. We also monitor market risk as the time for collection nears, measuring corporate value by referencing the corporate value of similar business types. The frequency of monitoring may increase based on changes in the business environment, and we simultaneously verify the adequacy of investment scenarios and take any necessary action. Furthermore, for investments that have a significant impact on the profitability of the ORIX Group, we work to strengthen management through measures such as seconding of management personnel.

We conduct our concession business in public facilities such as airports, together with business partners. The main risks of such business are business and operational risks. The long-term nature of this business adds uncertainty and, therefore, we conduct stress tests in advance to evaluate the effect of disaster recovery or business withdrawal costs on operating revenue and cash flow based on demand forecasts and regularly monitor business plans and operations. We also strive to train staff with expertise on the management of public facilities and reduce operational risk by



establishing a management system with business partners and strengthening governance.

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In the loan servicing business, we seek to reduce credit and operational risk by conducting periodic internal auditing and monitoring and by implementing business operations based on work procedures in accordance with the applicable supervision and guidance from regulatory authorities. In addition, OAMLS has appointed a lawyer as a director, has streamlined its organization to place legal and compliance-related affairs under the legal and compliance department. This approach allows OAMLS to employ expert advice and other perspectives in addressing stakeholder related legal issues.

### *Retail Segment*

The main risk in the life insurance business is business risk and market risk, in particular, the risk associated with underwriting insurance contracts.

ORIX Life Insurance has implemented strict assessment standards based on documents such as statements of health condition and medical examination reports in underwriting insurance contracts, and also relies on its staff of trained underwriting employees to check the status of insurance solicitation and to take rigorous measures to prevent the underwriting of fraudulent contracts. In addition, ORIX Life Insurance educates and instructs its representative branch staff and agents to enhance compliance with applicable laws and regulations regarding the privacy of personal information, as well as insurance sales practices, and regularly checks whether these measures are carried out.

Credit risk is the main risk of the housing loan business, the corporate loan business and the card loan business.

Regarding each housing loan we extend for the purchase of condominiums and apartments for investment purposes, we conduct screenings through individual interviews, which consist of a comprehensive evaluation including not only the client's real estate investment appetite, supporting documentation, and ability to repay but also the cash flows that can be derived from the property and its collateral value. Throughout this process, we carefully select partner realtors and utilize the real estate market information, industry know-how and network we have built over many years.

Decision making for corporate loans is based on an investigation of the client's performance, business plan, purpose of the loan, expected source of repayment and industry trends. We also reduce risk by avoiding overconcentration in any particular business type and product in our portfolio.

The card loan business uses a proprietary scoring system incorporating a credit model. We set interest rates and credit limits in line with each customer's credit risk profile, after evaluating their creditworthiness based on an analysis of certain customer attributes or payment history, as well as other factors that might affect their ability to repay. Also, we undertake subsequent credit evaluations at regular intervals to monitor changes in the customer's financial condition.

### *Overseas Business Segment*

In the Overseas Business segment, credit risk is the main risk of the leasing and loan businesses operated by local subsidiaries which are located mainly in Asia.

Individual transactions in this segment are conducted in a manner similar to those in the domestic business segments. The credit department monitors the portfolio according to country risk. Information regarding the portfolio of the respective local subsidiaries, the business condition of major clients, the condition of those assets requiring extra monitoring and the clients of particular concern is shared internally.

Risk management in the principal investment business and the automobile-related business is conducted in a similar manner to that in the domestic business segments.



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In addition, in the aircraft and ship-related business, we monitor market conditions and the overall business environment for business risk. We generally limit our operating leases to ships and aircraft with high versatility that are comparatively easy to re-lease and evaluate sales depending on changes in market conditions.

Credit risk and market risk such as those arising from corporate loans and securities investment in the United States are the main risks for the investment and finance business.

Regarding credit risk, at the time an investment or loan is made, we assign an internal credit rating to such investment or loan taking into consideration credit and collateral status and continuously monitor credit status. For any investments and/or loans of which the rating has reached or exceeded the cautionary level, our policy requires management to determine the necessity of a provision for doubtful receivables and probable loan losses or an impairment.

Regarding market risk, we monitor market values while referring to credit risk information and manage risk by pursuing early sales as appropriate to secure profits or minimize losses.

Operational risk is the main risk for the loan servicing business in the United States. We arrange loans and conduct servicing operations thereof under public financing schemes such as the Federal National Mortgage Association and the Federal Housing Administration. We conduct our operations based on the designated operating procedures set forth by these public financial institutions, and monitor and manage service quality through internal auditing.

Business risk and operational risk, in particular, the risk associated with fiduciary responsibility, are the main risks for the asset management business and the advisory business.

Regarding business risk, in addition to monitoring to maintain and ensure satisfactory quality levels, we review the content of our products and services to constantly maintain and improve quality in response to changes in the business environment and evolving customer needs.

Regarding operational risk in the asset management business, regarding risk arising from acting as a trustee for customer and client property, we promote the standardization of business processes, regulations and manuals and seek to prevent omissions and mistakes in conducting business operations and to improve efficiency generally. In addition, we ensure proper risk management by clarifying operating procedures and the authority and the responsibilities of administrators and supervisors in business operations.

To ensure high-quality advice and evaluation services in the advisory business, we maintain operating procedures that meet the standards set forth by authorities and other forms of oversight through an internal quality control committee.

## **GOVERNMENTAL AND POLITICAL POLICIES AND FACTORS**

Other than as outlined below, in our opinion, no current governmental economic, fiscal, monetary or political policies or factors have materially affected, or threaten to materially affect, directly or indirectly, our operations or the investments in our Shares by our U.S. shareholders.

In January 2014, the Financial Stability Board ( FSB ) an international standard-setting authority proposed a methodology for assessing and designating non-bank non-insurer global systemically important financial institutions ( NBNI G-SIFIs ). In March 2015, the FSB and the International Organization of Securities Commissions, jointly published a revised proposal for public comment; and in July 2015, the FSB announced its decision to wait to finalize the assessment methodologies until it completes its assessment of financial stability risks from asset management

activities. While the FSB released final policy recommendations to address

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structural vulnerabilities from asset management activities in January 2017, it is unclear if or when the assessment methodologies framework will be finalized, what form a final framework may take, what policy measures will be recommended to apply to NBNI G-SIFIs, and whether ORIX or any of its affiliates ultimately would be designated as a NBNI G-SIFI.

**Item 6. Directors, Senior Management and Employees**

**DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**CORPORATE GOVERNANCE SYSTEM**

We believe that a robust corporate governance system is a vital element of effective and enhanced management and have established sound and transparent corporate governance to carry out appropriate business activities in line with our core policies and to ensure objective management.

ORIX's corporate governance system is characterized by:

separation of operation and oversight through a Company with Nominating Committee, etc. board model;

Nominating, Audit and Compensation Committees composed entirely of outside directors;

all outside directors satisfying strict conditions for independence; and

all outside directors being highly qualified in their respective fields.

**Rationale behind adopting ORIX's Corporate Governance System and history of the system**

We believe that swift execution of operations is vital to effectively responding to changes in the business environment. Furthermore, we believe that ORIX promotes improved management transparency through a corporate governance system in which outside directors, who are experts in their respective fields monitor and advise on legal compliance and the appropriate execution of operations.

Based on these principles, our board of directors possesses oversight function and, under the Company with Nominating Committee, etc. board model which we adopted in June 2003, delegates certain responsibilities to the three committees (Nominating, Audit and Compensation Committees) to carry out the role of effective governance.

Oversight by directors is separate from the execution of operations within the three committees that form the heart of the board of directors. Each committee is formed entirely by outside directors to help avoid conflicts of interest with our shareholders.

In addition, all outside directors must meet the conditions for director independence as set forth by the Nominating Committee (described below under Nominating Committee ).

Below is a summary of the history of ORIX's corporate governance system;

June 1997	Established Advisory Board
June 1998	Introduced Corporate Executive Officer System
June 1999	Introduced Outside Directors
June 2003	Adopted the Company with Committees board model
May 2006	Adopted the new Company with Committees board model in line with the enactment of the Companies Act of Japan
May 2015	Adopted the new Company with Nominating Committee, etc. board model in line with the amendment of the Companies Act of Japan

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The Company with Nominating Committee, etc. board model, as stipulated under the Companies Act of Japan, requires the establishment of three board of director committees: the Nominating, Audit and Compensation Committees. Each committee is required to consist of three or more directors, a majority of whom must be outside directors. Directors may serve on more than one committee. The term of office of committee members is not stipulated under the Companies Act of Japan. However, as a committee member must be a director of the Company, the term expires at the close of the first annual general meeting of shareholders after his or her election. Under the Companies Act of Japan, an outside director is defined as a director who does not have a role in executing the Company's business, meaning an individual who has not assumed in the past ten years the position of a representative director or a director with the role of executing the business, executive officer (*shikkou-yaku*), manager or any other employee of the Company or any of its subsidiaries, and who does not currently assume such position of the Company or any of its subsidiaries. (See Item 16G Corporate Governance .)

**Board of Directors**

The board of directors has ultimate decision-making authority for our important affairs. It also monitors the performance of the directors and executive officers and receives performance reports from the executive officers and others. Our Articles of Incorporation provide for no fewer than three directors. Directors are elected at general meetings of shareholders. The term of office for any director, as stipulated under the Companies Act of Japan, for companies that adopt a Company with Nominating Committee, etc. board model, expires at the close of the first annual general meeting of shareholders after his or her election.

The board of directors carries out decisions related to items that, either as a matter of law or pursuant to our Articles of Incorporation, cannot be delegated to executive officers, and important items as determined by the regulations of the board of directors. The board of directors is responsible for deciding and monitoring ORIX's policies on a regular basis, which include corporate planning such as capital management, fund procurement, hiring and recruitment strategies and internal controls. Aside from such items, the board of directors delegates decision-making regarding operations to representative executive officers to facilitate better efficiency and swiftness of such process. The board of directors also receives reports from executive officers and committees regarding the status of business operations.

With the exception of the aforementioned items, the board of directors may delegate substantial management authority to representative executive officers. Representative executive officers make decisions on management issues as delegated by the board of directors and execute the business of the Company. For example, the board may delegate to representative executive officers the authority to approve issuances of shares of capital stock and bonds. In addition, the Companies Act of Japan permits an individual to simultaneously be a director and a representative executive officer of the Company.

From April 1, 2017 through March 31, 2018, the board of directors met eight times. The attendance rate of directors for these meetings was 98%.

The board of directors as of June 28, 2018 included 12 members, six of whom are outside directors.

*Composition and size of Board of Directors*

The board of directors is composed of directors, including outside directors, that possess broad knowledge and experience. The number of directors on the board is also maintained at the level we consider to be appropriate for effective and efficient board discussion.





**Table of Contents****Structure and Activities of the Three Committees**

As of June 28, 2018, all three committees (Nominating, Audit and Compensation Committees) consisted entirely of outside directors. The members of each committee along with the number of committee meetings and attendance rates are shown below.

	<b>Nominating Committee</b>	<b>Audit Committee</b>	<b>Compensation Committee</b>
Members as of June 28, 2018	5 Members (Outside Directors: 5)	4 Members (Outside Directors: 4)	4 Members (Outside Directors: 4)
	Nobuaki Usui (Chairperson)	Eiko Tsujiyama (Chairperson)	Robert Feldman (Chairperson)
	Robert Feldman	Nobuaki Usui	Eiko Tsujiyama
	Takeshi Niinami	Ryuji Yasuda	Takeshi Niinami
	Ryuji Yasuda	Heizo Takenaka	Ryuji Yasuda
	Heizo Takenaka		
Number of meetings held during fiscal 2018 (Attendance rate)	Three (3) meetings (94%)	Nine (9) meetings (94%)	Five (5) meetings (100%)

***Nominating Committee***

The Nominating Committee is authorized to propose the slate of director appointments or dismissals to be submitted to the annual general meeting of shareholders. Directors are appointed and dismissed by a resolution of the annual general meeting of shareholders. In addition, the Nominating Committee deliberates on the agenda concerning the appointment or dismissal of our executive officers to be resolved at the board of directors meeting, although this is not required under the Companies Act of Japan.

Furthermore, the Nominating Committee ensures that the board of directors possesses the appropriate levels of and diversity in knowledge, experience, and expertise, through an established decision-making process for directors appointments. The Nominating Committee also nominates executive officer candidates to the board of directors following an assessment of candidates' past experience, knowledge, and suitability for the position to execute business decisions in the Company's existing and new businesses.

Nomination criteria for director candidates:

(Internal Director)

An individual with a high degree of expertise in ORIX Group's business

An individual with excellent business judgment and business administration skills  
(Outside Director)

An individual with a wealth of experience as a business administrator

An individual with professional knowledge in fields such as economics, business administration, law and accounting, as such relate to corporate management

An individual with extensive knowledge in areas such as politics, society, culture and academics, as such relate to corporate management

The Nominating Committee determines whether the conditions for director independence have been met in accordance with nomination criteria for outside directors, which are:

- (1) No individual may be a principal trading partner\*, or an executive officer (including operating officer, hereinafter the same) or employee of a principal trading partner of ORIX Group. If such circumstances

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existed in the past, one year must have passed since that person's departure from such office or employment.

\* A principal trading partner refers to an entity with a business connection to ORIX Group with a transaction amount equivalent to more than the greater of 2% of such entities consolidated total sales (or consolidated total revenues) or one million U.S. dollars in any fiscal year of the preceding four fiscal years.

(2) No individual may receive directly a large amount of compensation (10 million yen or higher in a fiscal year), excluding compensation as a director from ORIX Group in any fiscal year during the preceding four fiscal years. Further, any corporation or other entity in which such individual serves as a consultant, account specialist or legal expert may not receive a large amount of compensation (equivalent to more than the greater of 2% of such entities consolidated total sales (or consolidated total revenues of ORIX Group) or one million U.S. dollars) from ORIX Group. If such circumstances existed in the past, one year must have passed since that corporation or other entity received such compensation.

(3) No individual may be a major shareholder of ORIX (10% or higher of issued shares) or a representative of the interests of a major shareholder.

(4) No individual may have served as an executive officer of a company having a relationship of concurrent directorship\* with ORIX in any fiscal year of the preceding four fiscal years.

\* Concurrent directorship refers to a relationship in which an executive officer of ORIX or its subsidiaries also serves as a director of a company in which the individual has been an executive officer and an outside director of ORIX.

(5) No individual may be a member of the executive board (limited to those who execute business) or be a person executing the business (including an officer, corporate member or employee who executes business of the organization) of any organization (including public interest incorporated associations, public interest incorporated foundations and non-profit corporations) that have received a large amount of donation or financial assistance (annual average of 10 million yen or higher over the past three fiscal years) from the ORIX Group.

(6) No individual may have served as an accounting auditor or accounting counselor (*kaikei san-yo*), a certified public accountant (or a tax accountant) or a corporate member, a partner or an employee of an audit firm (or a tax accounting firm) who personally performed the audit work (excluding engagement as a supporting role) for ORIX Group in any fiscal year of the preceding four fiscal years.

(7) None of an individual's family members\* may fall under any of the following:

i) A person who was an executive officer or an important employee of the ORIX Group during the past three years.

- ii) A person who falls under one of the criteria specified in (1) through (3), (5) and (6) above; provided, however, that criterion (1) is limited to an executive officer, criterion (2) is limited to a corporate member or a partner of the corporation or other entity and criterion (6) is limited to an executive officer or an employee who performs the audit on the ORIX Group in person.

\* Family members include a spouse, those related within the second degree by consanguinity or affinity, or other kin living with the outside director.

- (8) There must be no material conflict of interest or any possible conflict of interest that might influence the individual's judgment in performing their duties as an outside director.

***Audit Committee***

The Audit Committee monitors the operational execution of the directors and executive officers and prepares audit reports. In addition, the Audit Committee proposes the appointment or dismissal of, or the passage

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of resolutions refusing the reappointment of the Company's independent certified public accountants to the annual general meeting of shareholders.

Under the Company with Nominating Committee, etc. board model, the directors who compose the Audit Committee are not permitted to be executive officers, executive directors, managers, employees or accounting counselors (*kaikei san-yo*) of the Company or its subsidiaries. Under the Company with Nominating Committee, etc. board model, the Audit Committee generally has powers and duties to monitor the performance of the directors and executive officers in the performance of their responsibilities, as well as the right to propose the appointment or dismissal of, or to pass resolutions for refusing reappointment of the Company's independent certified public accountants at the annual general meeting of shareholders. Any proposal for appointment or dismissal of a certified public accountant needs to be submitted to a general meeting of shareholders for approval. In furtherance of its responsibilities, the Audit Committee also has the power to request a report of business operations from any director, executive officer, manager or other employee at any time, and to inspect for itself the details of the Company's business operations and financial condition.

### ***Compensation Committee***

The Compensation Committee has the authority to set the policy for determining compensation for directors and executive officers in accordance with the Companies Act of Japan and to set the specific compensation for each individual director and executive officer. Director and executive officer compensation information is disclosed in accordance with the Companies Act and the Financial Instruments and Exchange Act.

### **Executive Officers**

Under the Company with Nominating Committee, etc. board model, and within the scope of laws and ordinances, corporate decisions made at board of directors meetings are delegated to the executive officers to accelerate and achieve efficiency in business operations. The representative executive officer makes important business execution decisions after deliberations by the Investment and Credit Committee ( ICC ) in accordance with the Company's internal policies. The business execution duties of executive officers are decided by the board of directors and the representative executive officer and these duties are carried out based upon the Company's internal policies. Group executives are appointed by the board of directors from among directors and executive officers of Group companies.

Important decision-making related to business execution, monitoring, discussions, and information sharing is carried out by the following bodies:

### ***Investment and Credit Committee***

The ICC, which includes members of top management and the executive officers involved with a given transaction, discusses and makes decisions regarding credit transactions and investments that exceed certain specified investment or credit amounts, important matters related to the management of the Company and matters that have been entrusted to the representative executive officer by the board of directors. Matters considered crucial to our operations are decided by the ICC and reported to the board of directors as appropriate.

### ***Group Executive Officer Committee***

The Group Executive Officer Committee, in which executive officers and group executives of the Company participate, discusses important matters relating to the business execution of ORIX Group.

***Monthly Strategy Meetings***

Monthly Strategy Meetings include meetings between top management and the management in charge of individual departments and business units to discuss matters such as the status for achieving strategic targets and

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changes in the business environment. Matters of key importance discussed at Monthly Strategy Meetings are then deliberated and decided by the ICC and reported to the board of directors as necessary.

### ***Information Technology Management Committee***

The Information Technology Management Committee includes members of top management and the executive officer in charge of information technology ( IT ) systems. It meets to deliberate and approve important matters concerning fundamental policies for IT operations and IT systems. The committee determines the needs of and priorities for IT investment based on ORIX Group s fundamental IT strategies. This method enables ORIX to ensure that IT decisions are consistent with its business strategies and to make IT investments that contribute to business growth and help reduce risk.

### ***Disclosure Committee***

The Disclosure Committee, which plays a key role in our disclosure control, is chaired by the CFO and consists of the executive officers in charge of various departments, including: Treasury and Accounting Headquarters, Credit and Investment Management Headquarters, Enterprise Risk Management Headquarters, Group Human Resources and Corporate Administration Headquarters and Group Internal Audit Department. Upon receiving material information from an executive officer of ORIX Group or the person in charge of an ORIX Group company department, the committee discusses whether or not any timely disclosure is necessary, and takes steps to appropriately disclose such information.

### **Policies on Auditing and Auditing System**

The Audit Committee has established the following five items as its fundamental policies:

The Committee shall always emphasize a consolidated management standpoint in auditing.

The Committee shall monitor and verify the formulation and status of operations of the Group s internal control systems. In particular, it shall consider the validity and effectiveness of compliance systems, systems to ensure the credibility of financial reporting, and risk management systems.

The Committee shall monitor and verify whether directors, executive officers, and employees under the supervision of executive officers are complying with laws, ordinances, and the provisions of the Articles of Incorporation in fulfilling their obligations of loyalty and due diligence, as well as any other legal obligations to the Group.

The Committee shall monitor and verify whether executive officers are determining the execution of their duties and carrying out said duties appropriately and efficiently in accordance with basic management policies, medium-term management plans, and other plans and policies established by the Board of Directors.



To ensure the fairness and credibility of audits, the Committee shall monitor and verify whether the accounting auditor is maintaining its independent position and conducting appropriate audits as a professional expert.

Based on these fundamental policies, the Audit Committee verifies the status of the performance of duties and the formulation and status of operations of internal control systems with the representative executive officer and the heads of internal control-related and accounting departments, and shares information with the executive officers responsible for the Group Internal Audit Department, the accounting auditor, and others as necessary.

The Auditing functions of the Company are as follows.

***Audit Committee***

The Audit Committee which consists of four outside directors evaluates the Company's internal control systems from an independent standpoint and may appoint outside experts to conduct its duties if necessary. Eiko

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Tsujiyama, chairperson of the Audit Committee, is qualified as a certified public accountant and has extensive knowledge in finance and accounting as a professional accountant.

### ***Audit Committee Secretariat***

The Audit Committee Secretariat which includes three staff members, supports the work of the Audit Committee under the Audit Committee's instructions. The appointment and evaluation of, changes to, and disciplinary action toward the staff of the Audit Committee Secretariat are carried out by the executive officer responsible for the Group Internal Audit Department with the approval of the Audit Committee.

### ***Executive Officer Responsible for Group Internal Audit Department***

The Executive Officer Responsible for the Group Internal Audit Department supports the Audit Committee in collecting information. Such person is entrusted by the Audit Committee with attending important meetings within the ORIX Group and accurately reporting information essential to auditing activities to the Audit Committee in a timely manner.

### ***Group Internal Audit Department and Group Corporate Auditors***

The Group Internal Audit Department, which includes 34 staff (as of the end of May 2018), performs internal audits on the effectiveness of internal control systems, and the efficiency and effectiveness of operations, compliance, and other factors pertaining to the management of the ORIX Group through a risk-based approach. It also jointly monitors critical risk through cooperation with corporate auditors and internal audit functions at group companies and works to maintain and enhance the ORIX Group's internal auditing system.

## **AUDITOR INDEPENDENCE**

ORIX Group must appoint independent certified public accountants, who have the statutory duty of examining the nonconsolidated financial statements prepared in accordance with accounting principles generally accepted in Japan ( Japanese GAAP ). The independent certified public accountants must present an auditor's report to the Audit Committee and the executive officers specified by the board of directors. The independent certified public accountants are also responsible for auditing financial statements that are submitted to the Kanto Local Finance Bureau of the Ministry of Finance ( Kanto Local Finance Bureau ). The board of directors is required to submit the audited consolidated and nonconsolidated financial information to the annual general meeting of shareholders, and this information is also required to be submitted to the Tokyo Stock Exchange and the Kanto Local Finance Bureau.

Presently, our independent certified public accountants are KPMG AZSA LLC. The independence of KPMG AZSA LLC has been evaluated by our Audit Committee.

In addition to the nonconsolidated financial statements that are prepared under Japanese GAAP, we also prepare consolidated financial statements in accordance with U.S. GAAP. U.S. GAAP consolidated financial information is used by management for evaluating our performance and forms the basis for presentation of financial information to our shareholders. The consolidated financial statements prepared in accordance with U.S. GAAP that are included in this annual report filed with the SEC have been audited by KPMG AZSA LLC, which is registered with the PCAOB in the United States.

In the opinion of management, the provision of non-audit services did not impair the independence of KPMG AZSA LLC.



**Table of Contents****DIRECTORS**

The directors of ORIX as of June 28, 2018 are as follows:

<b>Name</b>	<b>Current positions and principal outside positions<sup>(1)</sup></b>	<b>Business experience</b>	<b>Shareholdings as of June 28, 2018</b>	
Makoto Inoue (Oct. 2, 1952)	Director, Representative Executive Officer, President and Chief Executive Officer, Responsible for Group Strategy Business Unit	Apr. 1975 Jan. 2003 Feb. 2005 Jan. 2006 Jun. 2009 Jun. 2010 Jan. 2011  Jan. 2014 Jun. 2014 Jan. 2017  Apr. 2017 May 2017 Jan. 2018	Joined the Company Deputy Head of Investment Banking Headquarters Assumed office of Executive Officer, the Company Assumed office of Managing Executive Officer, the Company Assumed office of Senior Managing Executive Officer, the Company Assumed office of Director, Deputy President, the Company Assumed office of Representative Executive Officer, President, the Company  Chief Operating Officer Co-Chief Executive Officer Chief Executive Officer Responsible for Group IoT Business Department, Responsible for New Business Development Department I and II Responsible for New Business Development Responsible for Open Innovation Business Department Responsible for Group Strategy Business Unit	75,265
Yuichi Nishigori (Jan. 28, 1957)	Director, Senior Managing Executive Officer Head of Energy and Eco Services Business Headquarters	Apr. 1980  Apr. 2003 Jan. 2007 Jan. 2009	Joined The Industrial Bank of Japan, Limited (currently, Mizuho Bank, Ltd.)  Joined the Company Deputy Head of Alternative Investment and Development Headquarters Assumed office of Executive Officer, the Company	15,924

Director, Ubiteq, INC.

Jan. 2014 Assumed office of Managing Executive  
Officer, the Company

Head of Energy and Eco Services  
Business Headquarters

Jun. 2015 Assumed office of Director, Managing  
Executive Officer, the Company

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<b>Name</b> <b>(Date of birth)</b>	<b>Current positions and</b> <b>principal outside</b> <b>positions<sup>(1)</sup></b>	<b>Business experience</b>	<b>Shareholdings</b>
			<b>as of</b> <b>June 28, 2018</b>
Kiyoshi Fushitani  (Nov. 22, 1950)	Director,	Sep. 2015	1,500
		Jan. 2016	
	Senior Managing Executive Officer	Apr. 1973	
	Head of Global Business Headquarters	Feb. 1975	
	Head of East Asia Business Headquarters	Sep. 2012	
	Head of Global Transportation Services Headquarters	Jan. 2015	
		Jun. 2015	
		Jan. 2016	
		Jun. 2016	

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<b>Name</b>	<b>Current positions and principal outside positions<sup>(1)</sup></b>	<b>Business experience</b>	<b>Shareholdings as of June 28, 2018</b>	
Stan Koyanagi (Date of birth) (Dec. 25, 1960)	Director,	Oct. 1985	Joined SHEPPARD, MULLIN, RICHTER & HAMPTON LLP	0
	Managing Executive Officer	Jan. 1993	Partner, GRAHAM & JAMES LLP (currently Squire Patton Boggs LLP)	
	Head of Enterprise Risk Management Headquarters	Mar. 1997	Vice President, ORIX USA Corporation (currently ORIX Corporation USA)	
	Global General Counsel	Mar. 1999	General Counsel, Vice President and Manager, ORIX USA Corporation (currently ORIX Corporation USA)	
	Chairman, ORIX Corporation Europe N.V.	Jan. 2004	Vice President and Associate General Counsel, KB HOME	
		Jul. 2013	Joined the Company	
			Global General Counsel, Global Business Headquarters	
		Jun. 2017	Assumed office of Director, Managing Executive Officer, the Company	
			Responsible for Enterprise Risk Management	
			Global General Counsel	
		Aug. 2017	Assumed office of Chairman, Robeco Groep N.V. (currently ORIX Corporation Europe N.V.)	
		Jun. 2018	Head of Enterprise Risk Management Headquarters	
Shuji Irie (Mar. 14, 1963)	Director,	May 2001	Joined Mizuho Securities CO., Ltd.	2,048
	Managing Executive Officer	Apr. 2011	Joined the Company	
		Sep. 2011	Deputy Head of Investment and Operation Headquarters	
	Head of Investment and Operation Headquarters	Jan. 2013	Assumed office of Executive Officer, the Company	
		Jan. 2014	Head of Investment and Operation Headquarters	
		Jan. 2016	Assumed office of Managing Executive Officer, the Company	

Responsible for Concession Business  
Development  
Jun. 2018 Assumed office of Director, Managing  
Executive Officer, the Company



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Name  (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience	Shareholdings	
			as of June 28, 2018	
Hitomaro Yano  (Jul. 25, 1962)	Director,  Executive Officer  Head of Treasury and Accounting Headquarters	Apr. 1985  Jun. 1989 Jan. 2016 Jan. 2017  Jun. 2017  Jan. 2018  Jun. 2018	Joined Seibu Department Stores, Limited (currently Sogo & Seibu Co., Ltd.)  Joined the Company Deputy Head of Treasury Headquarters Assumed office of Executive Officer, the Company Deputy Head of Treasury and Accounting Headquarters Head of Treasury and Accounting Headquarters Assumed office of Director, Executive Office, the Company	5,100
Eiko Tsujiyama  (Dec. 11, 1947)	Outside Director  Emeritus Professor, Waseda University  Corporate Auditor, Lawson, Inc.  Audit & Supervisory Board Member, NTT DOCOMO, Inc.  Audit & Supervisory Board Member, Shiseido Company, Limited	Apr. 1974 Aug. 1980 Apr. 1985  Apr. 1991  Apr. 1996  Apr. 2003  Sep. 2004  Jun. 2010  Sep. 2010  May 2011  Jun. 2011  Jun. 2012	Certified Public Accountant Assistant Professor, College of Humanities at Ibaraki University Assistant Professor, School of Economics at Musashi University Professor, School of Economics at Musashi University Assumed office of Dean, School of Economics at Musashi University Professor, School of Commerce and the Graduate School of Commerce at Waseda University Professor, Faculty of Commerce at Waseda University Assumed office of Outside Director, the Company Assumed office of Dean, Graduate School of Commerce at Waseda University Assumed office of Corporate Auditor, Lawson, Inc. Assumed office of Audit & Supervisory Board Member, NTT DOCOMO, Inc. Assumed office of Audit & Supervisory Board Member, Shiseido Company, Limited	0



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Name  (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience	Shareholdings
			as of June 28, 2018
Robert Feldman  (Jun. 12, 1953)	Outside Director	Oct. 1983 Economist, International Monetary Fund	0
	Senior Advisor, Morgan Stanley MUFG Securities Co., Ltd.	May 1989 Chief Economist, Salomon Brothers Inc. (currently Citigroup Global Markets Japan Inc.)	
	Professor, Graduate School of Management and Innovation Studies at Tokyo University of Science	Feb. 1998 Joined Morgan Stanley Securities, Ltd. (currently Morgan Stanley MUFG Securities Co., Ltd.) as Managing Director and Chief Economist Japan	
		Apr. 2003 Managing Director, Head of Japan Research and Chief Economist, Morgan Stanley Japan Securities Co., Ltd. (currently Morgan Stanley MUFG Securities Co., Ltd.)	
		Dec. 2007 Managing Director and Head of Japan Economic Research, Morgan Stanley Japan Securities Co., Ltd. (currently Morgan Stanley MUFG Securities Co., Ltd.)	
		Jun. 2010 Outside Director, ORIX	
		Jul. 2012 Managing Director, Chief Economist and Head of Fixed Income Research, Morgan Stanley MUFG Securities Co., Ltd.	
		Mar. 2014 Managing Director and Chief Economist, Morgan Stanley MUFG Securities Co., Ltd.	
		Jan. 2017 Senior Advisor, Morgan Stanley MUFG Securities Co., Ltd.	
		Apr. 2018 Professor, Graduate School of Management and Innovation Studies at Tokyo University of Science	
Takeshi Niinami  (Jan. 30, 1959)	Outside Director	Jun. 1995 Assumed office of President, Sodex Corporation (currently LEOC Co., Ltd.)	0
	President and Chief Executive Officer,	Apr. 2001 Unit Manager, Lawson Business and Mitsubishi's Dining Logistical Planning team, Consumer Industry division, Mitsubishi Corporation	
	Member of the Board, Representative Director, Suntory Holdings Limited.	May 2002 Assumed office of President, Representative Director and Executive	



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Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience	Shareholdings	
			as of June 28, 2018	
		Mar. 2005	Assumed office of President, Representative Director and Chief Executive Officer, Lawson, Inc	
		Jun. 2010	Assumed office of Outside Director, the Company	
		May 2013	Assumed office of Representative Director and Chief Executive Officer, Lawson, Inc.	
		May 2014	Assumed office of Chairman and Representative Director, Lawson, Inc.	
		Oct. 2014	Assumed office of Chairman and Member of the Board, Lawson, Inc. Assumed office of President and Chief Executive Officer, Member of the Board, Representative Director, Suntory Holdings Limited.	
Nobuaki Usui (Jan. 1, 1941)	Outside Director  Audit & Supervisory Board Member, KONAMI HOLDINGS CORPORATION  Outside Auditor, Miroku Jyoho Service Co., Ltd.	May 1995	Director-General of the Tax Bureau, Ministry of Finance	0
		Jan. 1998	Commissioner, National Tax Agency	
		Jul. 1999	Administrative Vice Minister, Ministry of Finance	
		Jan. 2003	Governor and Chief Executive Officer, National Life Finance Corporation (currently Japan Finance Corporation)	
		Dec. 2008	Assumed office of Chairman, The Japan Research Institute, Limited	
		Jun. 2011	Assumed office of Audit & Supervisory Board Member, KONAMI CORPORATION (currently KONAMI HOLDINGS CORPORATION)	
		Jun. 2012	Assumed office of Outside Director, the Company	
		Jun. 2016	Assumed office of Outside Auditor of Miroku Jyoho Service Co., Ltd.	

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<b>Name</b>	<b>Current positions and principal outside positions<sup>(1)</sup></b>	<b>Business experience</b>	<b>Shareholdings as of June 28, 2018</b>
Ryuji Yasuda (Apr. 28, 1946)	Outside Director Outside Director, Yakult Honsha Co., Ltd. Outside Director, Benesse Holdings, Inc. Adjunct Professor, Graduate School of Business Administration, Hitotsubashi University Department of International Corporate Strategy Outside Director, Kansai Mirai Financial Group, Inc.	Jun. 1991 Director, McKinsey & Company Jun. 1996 Chairman, A.T. Kearney, Asia Jun. 2003 Assumed office of Chairman, J-Will Partners, Co., Ltd. Apr. 2004 Professor, Graduate School of International Corporate Strategy at Hitotsubashi University Jun. 2009 Assumed office of Outside Director, Yakult Honsha Co., Ltd. Jun. 2013 Assumed office of Outside Director, the Company Jun. 2015 Assumed office of Outside Director, Benesse Holdings, Inc. Mar. 2017 Adjunct Professor, Graduate School of International Corporate Strategy at Hitotsubashi University Apr. 2018 Adjunct Professor, Graduate School of Business Administration, Hitotsubashi University Assumed office of Outside Director, Kansai Mirai Financial Group, Inc.	0
Heizo Takenaka (Mar. 3, 1951)	Outside Director Professor, Faculty of Global and Regional Studies at Toyo University Chairman and Director, PASONA Group Inc. Director, Academyhills Director, Center for Global Innovation Studies at Toyo University	Apr. 1990 Assistant Professor, Faculty of Policy Management at Keio University Apr. 1996 Professor, Faculty of Policy Management at Keio University Apr. 2001 Minister of State for Economic and Fiscal Policy Sep. 2002 Minister of State for Financial Services and for Economic and Fiscal Policy Jul. 2004 Elected to House of Councilors Sep. 2004 Minister of State for Economic and Fiscal Policy and Communications and Privatization of Postal Services Oct. 2005 Minister for Internal Affairs and Communications and Privatization of Postal Services	0

Outside Director, SBI  
Holdings, Inc.

Dec. 2006	Assumed office of Director, Academyhills
Aug. 2009	Assumed office of Chairman and Director, PASONA Group Inc.

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Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience	Shareholdings as of June 28, 2018
		Apr. 2010 Professor, Faculty of Policy Management at Keio University	
		Jun. 2015 Assumed office of Outside Director, the Company	
		Apr. 2016 Professor, Faculty of Regional Development Studies at Toyo University (currently Faculty of Global and Regional Studies at Toyo University)	
		Assumed office of Director, Center for Global Innovation Studies at Toyo University	
		Jun. 2016 Assumed office of Outside Director, SBI Holdings, Inc.	

- Notes: 1. All ORIX directors are engaged full-time except Eiko Tsujiyama, Robert Feldman, Takeshi Niinami, Nobuaki Usui, Ryuji Yasuda and Heizo Takenaka.
2. ORIX Corporation USA, one of the Company's subsidiaries, has changed its name from ORIX USA Corporation on June 1, 2018.
3. ORIX Corporation Europe N.V., one of the Company's subsidiaries, has changed its name from Robeco Groep N.V. on January 1, 2018.



**Table of Contents****EXECUTIVE OFFICERS**

The executive officers of the ORIX Group as of June 28, 2018, excluding those who are also directors as listed above are as follows:

<b>Name</b>	<b>Title</b>	<b>Areas of duties</b>	<b>Shareholdings as of June 28, 2018</b>
Kazutaka Shimoura	Managing Executive Officer	Credit and Investment Management Headquarters	9,997
Hideto Nishitani	Managing Executive Officer	Chairman and President, ORIX Corporation USA	37,767
Satoru Matsuzaki	Managing Executive Officer	Domestic Sales Administration Headquarters	7,648
Shinichi Obara	Executive Officer	Eastern Japan Sales Headquarters Western Japan Sales Headquarters	10,049
Harukazu Yamaguchi	Executive Officer	Group Kansai Representative Global Business Headquarters	3,654
Toshinari Fukaya	Executive Officer	Real Estate Headquarters	4,200
Yasuaki Mikami	Executive Officer	Finance and Investment Department Group Human Resources and Corporate Administration Headquarters	1,158
Yoshiteru Suzuki	Executive Officer	Secretariat of The Board of Directors	
Yoshiko Fujii	Executive Officer	Work Style Reform Project Deputy President, ORIX Corporation USA	0
Katsunobu Kamei	Group Senior Managing Executive	Enterprise Risk Management Headquarters President, ORIX Auto Corporation	26,280
Kazunori Kataoka	Group Senior Managing Executive	President, ORIX Life Insurance Corporation	0
Hiroko Yamashina	Group Executive	President, ORIX Credit Corporation	32,700
Toyonori Takahashi	Group Executive	President, ORIX Real Estate Corporation	6,588

Group Kansai Deputy  
Representative

- Notes:
1. Name on the family register of Yoshiko Fujii is Yoshiko Hirano.
  2. Name on the family register of Hiroko Yamashina is Hiroko Arai.
  3. ORIX Corporation USA, one of the Company's subsidiaries, has changed its name from ORIX USA Corporation on June 1, 2018.

**EMPLOYEES**

As of March 31, 2018, we had 31,890 full-time employees, compared to 34,835 as of March 31, 2017 and 33,333 as of March 31, 2016. We employ 2,167 staff in the Corporate Financial Services segment, 2,825 staff in

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the Maintenance Leasing segment, 4,978 staff in the Real Estate segment, 9,190 staff in the Investment and Operation segment, 3,047 staff in the Retail segment, 7,813 staff in the Overseas Business segment and 1,870 staff as part of our headquarters function as of March 31, 2018. With the exception of the Overseas Business segment, all other staff are located in Japan. As of March 31, 2018, we had 20,687 temporary employees. Some of our employees are represented by a union. We consider our labor relations to be excellent.

The mandatory retirement age for our employees is 65, but for our subsidiaries and affiliates the retirement age varies. ORIX and major domestic subsidiaries introduced a system for retirement at age 65 from April 2014. By implementing the system alongside the current re-employment system at retirement age, the system will allow employees to choose how they will work from age 60 according to their lifestyles. In April 2010, ORIX introduced an early voluntary retirement program that is available to ORIX employees who are at least 45 years old. Employees who take advantage of this program receive their accrued retirement package plus an incentive premium.

ORIX and some of its subsidiaries have established contributory and noncontributory funded pension plans covering substantially all of their employees. The 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, if enrollment period requirements have been met, to pension payments. Defined benefit pension plans consist of a cash balance plan and a plan in which the amount of the payments are determined on the basis of length of service and remuneration at the time of termination. Our funding policy in respect of these plans is to contribute annually the amounts actuarially determined to be required. Assets of the plans are invested primarily in interest-bearing securities and marketable equity securities. In July 2004, ORIX introduced a defined contribution pension program. In November 2004, we received permission from the Japanese Ministry of Health, Labor and Welfare to transfer the substitutional portion of benefit obligation from our employer pension fund to the government and these assets were transferred back to the government in March 2005. Total costs (termination or pension plans for both employees and directors and corporate auditors) charged to income for all benefit plans (including defined benefit plans) were ¥9,417 million, ¥9,136 million and ¥8,738 million in fiscal 2016, 2017 and 2018, respectively.

**SHARE OWNERSHIP**

As of June 28, 2018, the directors, executive officers and group executives of the Company directly held an aggregate of 245,878 Shares, representing 0.02% of the total Shares issued as of such date.

**COMPENSATION**

To promote greater management transparency in our governance, we had established the Executive Nomination and Compensation Committee in June 1999. Its functions included recommending executive remuneration. In June 2003, we adopted a Company with Committees board model and replaced the Executive Nominating and Compensation Committee with separate Nominating and Compensation Committees. For discussion of these committees, see Item 6. Directors, Senior Management and Employees Nominating Committee and Compensation Committee.

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Compensation for directors, executive officers and group executives in fiscal 2018 was as follows (in millions of yen);

	Fixed compensation (Number of people)		Performance-linked compensation (Number of people)		Share component of compensation (Number of people)		Total compensation	
Non-Executive Director and Outside Director	¥	99			¥	16	¥	116
		(7)				(7)		(7)
Executive Officer and Group Executive	¥	694	¥	370	¥	492	¥	1,557
		(27)		(27)		(27)		(27)
Total	¥	794	¥	370	¥	508	¥	1,673
		(34)		(27)		(34)		(34)

The amount paid listed in the table above is calculated by multiplying the number of points confirmed to be provided as the portion for fiscal 2018 by the stock market price paid by the trust ( Board Incentive Plan Trust ) when ORIX's shares were acquired (¥1,544 per share).

Compensation for Makoto Inoue, Representative Executive Officer, President and Chief Executive Officer of ORIX, for fiscal 2018 was ¥90 million in fixed compensation, ¥93 million in performance-linked compensation and ¥89 million in share component of compensation.

Compensation for Kazuo Kojima, currently Director, Representative Executive Officer and President of DAIKYO INCORPORATED, as Director, Representative Executive Officer, Deputy President and Chief Financial Officer of ORIX, for fiscal 2018 was ¥51 million in fixed compensation, ¥22 million in performance-linked compensation and ¥31 million in share component of compensation.

The actual total amount of the share component of compensation paid in fiscal 2018 was ¥696 million paid to six executive officers (including those serving concurrently as Directors and Executive Officers) who retired during fiscal 2018. The following individuals retired during fiscal year 2018 and were paid share component of compensation totaling over ¥100 million. Compensation for Tamio Umaki, currently Advisor of ORIX Corporation, as Director, Representative Executive Officer and Deputy President of ORIX, for fiscal 2018 was ¥12 million in fixed compensation, ¥5 million in performance-linked compensation and ¥217 million in share component of compensation. Compensation for Shintaro Agata, currently Advisor of ORIX, as Senior Managing Executive Officer of ORIX, for fiscal 2018 was ¥26 million in fixed compensation, ¥11 million in performance-linked compensation and ¥127 million in share component of compensation. Compensation for Takao Kato, currently Advisor of ORIX, as Managing Executive Officer of ORIX, for fiscal 2018 was ¥21 million in fixed compensation, ¥9 million in performance-linked compensation and ¥122 million in share component of compensation. Compensation for Satoru Katahira, currently Chairman of Health Insurance Society and Corporate Pension Fund of ORIX Group, as Managing Executive Officer of ORIX, for fiscal 2018 was ¥21 million in fixed compensation, ¥8 million in performance-linked compensation and ¥72 million in share component of compensation.

The Compensation Committee sets the following Policy of Determining Compensation of Directors and Executive Officers.

*Policy of Determining Compensation of Directors and Executive Officers*

ORIX's business objective is to increase shareholder value over the medium- to long- term. ORIX believes in the importance of each director's and executive officer's responsibly performing his or her duties and cooperation among different business units in order to achieve continued growth of the ORIX Group. The

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Compensation Committee believes that in order to accomplish such business objectives, directors and executive officers should place emphasis not only on business performance during the current fiscal year, but also on medium- to long-term results. Accordingly, under the basic policy that compensation should provide effective incentives, ORIX takes such factors into account when making decisions regarding the compensation system and compensation levels for directors and executive officers. Taking this basic policy into consideration, we have established separate policies for the compensation of directors and executive officers in accordance with their respective roles.

*Compensation Policy for Directors*

The compensation policy for directors who are not also executive officers aims for composition of compensation that is effective in maintaining supervisory and oversight functions of executive officers' performance in business operations, which is the main duty of directors. Specifically, ORIX's compensation structure for directors consists of fixed compensation and share-based compensation\*. In addition, the Company strives to maintain a competitive level of director compensation according to the role fulfilled, and receives third-party research reports on director compensation for this purpose.

Fixed compensation is, in principal, a certain amount that is added to the compensation of the chairperson and member of each committee. Share-based compensation reflecting medium- to long- term performance is granted at the time of retirement in the form of ORIX's shares, which is calculated based on the number of points earned and accumulated by the individual while in office until the end of his or her directorship.

*Compensation Policy for Executive Officers*

The compensation policy for executive officers, including those who are also directors, aims for a level of compensation that is effective in maintaining business operation functions, while also incorporating a component that is linked to current period business performance. Specifically, ORIX's compensation structure for executive officers consists of fixed compensation, performance-linked compensation, and share-based compensation\* as described above. In addition, based on a research report from a third-party compensation consultant, the Company strives to maintain a competitive level of compensation with executive officer compensation functioning as an effective incentive.

Fixed compensation is determined for each individual based on a standard amount for each position. For executive officers, compensation linked to business performance for fiscal 2018 uses the level of achievement of the consolidated net income target as a performance indicator, adjusting 50% of the position-based standard amount within the range of 0% to 200% while, at the same time, using the level of achievement of the target of the division for which the relevant executive officer was responsible, adjusting 50% of the position-based standard amount within the range of 0% to 300%. In the case of the representative executive officers, the consolidated net income target is used as a performance indicator, adjusting the standard amount within the range of 0% to 200%. Share-based compensation reflecting medium- to long-term performance is granted as a certain number of points based on a standard amount for each position while in office, and the amount of the payment is decided according to the share price at the time of an individual executive officer's retirement.

\* In June 2005, we introduced the share-based component of compensation, which is a program in which points are annually allocated to directors and executive officers based upon prescribed standards while in office, and the actual number of ORIX's shares calculated based on the number of accumulated points is provided at the time of retirement. In July 2014, we started to provide these shares through a trust established by the Company ( The

Board Incentive Plan Trust )\*\*. Points granted to the members of each position are determined based on title and seniority in accordance with guidelines set by the Compensation Committee. The Compensation Committee has not set a fixed term in which directors and executive officers must retain the shares after their retirement. The Compensation Committee may restrict the awarding of stock-based compensation to directors and executive officers in the event that such individuals engage in inappropriate behavior while in office that would inflict harm on the Company.

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\*\* The Company entrusts money to the Board Incentive Plan Trust, which acquires ORIX's shares from the stock market for directors and executive officers at the end of his or her tenure using money contributed in advance. In addition, in June 2005, we established guidelines for ownership of our shares for directors, executive officers and group executives.

The total number of points of the shares component of compensation granted to directors, executive officers and group executives for fiscal 2018 is equivalent to 349,410 points. Under this system, ¥696 million, which is equivalent to 474,633 points accumulated up to the end of tenure, was paid to executive officers who left their positions during fiscal 2018. As a result, the balance to directors, executive officers and group executives as of March 31, 2018 was 1,451,485 points.

There are no service contracts between any of our directors, executive officers or group executives and the Company or any of its subsidiaries providing for benefits upon termination of employment.

The following table shows the names of directors, executive officers and group executives who received stock options, and the number of Shares for which they were granted options, under the stock option plans for 2008. No stock options were granted in any year since 2009. Each unit of the Shares has one vote. We have not issued any preferred shares.

Titles for each individual as of June 28, 2018, unless otherwise described, are as follows:

Name	Title	2008 stock option plans
Makoto Inoue	Director, President and Chief Executive Officer	0
Yuichi Nishigori	Director, Senior Managing Executive Officer	6,000
Kiyoshi Fushitani	Director, Senior Managing Executive Officer	0
Stan Koyanagi	Director, Managing Executive Officer	0
Shuji Irie	Director, Managing Executive Officer	0
Hitomaro Yano	Director, Executive Officer	0
Eiko Tsujiyama	Outside Director	0
Robert Feldman	Outside Director	0
Takeshi Niinami	Outside Director	0
Nobuaki Usui	Outside Director	0
Ryuji Yasuda	Outside Director	0
Heizo Takenaka	Outside Director	0
Kazutaka Shimoura	Managing Executive Officer	6,000
Hideto Nishitani	Managing Executive Officer	2,800
Satoru Matsuzaki	Managing Executive Officer	2,800
Shinichi Obara	Executive Officer	6,000
Harukazu Yamaguchi	Executive Officer	0
Toshinari Fukaya	Executive Officer	2,400
Yasuaki Mikami	Executive Officer	0
Yoshiteru Suzuki	Executive Officer	0
Yoshiko Fujii	Executive Officer	1,600
Katsunobu Kamei	Group Senior Managing Executive	2,900
Kazunori Kataoka	Group Senior Managing Executive	0



Hiroko Yamashina	Group Executive	2,000
Toyonori Takahashi	Group Executive	2,000

- Notes: 1. Name on the family register of Yoshiko Fujii is Yoshiko Hirano.  
2. Name on the family register of Hiroko Yamashina is Hiroko Arai.

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We have adopted various incentive plans including a stock option plan. The purpose of our stock option plan is to enhance the link between management, corporate performance and stock price, and, in this way, improve our business results. These plans are administered by ORIX's Human Resources Department. For further discussion of stock-based compensation, see Note 19 of Item 18. Financial Statements.

At the annual general meetings of shareholders in the years from 1997 to 2000 inclusive, our shareholders approved stock option plans under which ORIX purchased shares from the open market and held them for transfer to ORIX's directors and executive officers and some employees upon the exercise of their options. Shareholders also approved a stock subscription rights plan in 2001 and stock acquisition rights plans from 2002 to 2005. From 2006 to 2008, the Compensation Committee approved stock acquisition rights plans for our directors and executive officers, and shareholders approved similar plans for certain ORIX employees, as well as directors, executive officers and certain employees of our subsidiaries and affiliates. From 2009 to 2018, no stock option plans were adopted for our directors, executive officers, employees, or those of our subsidiaries and affiliates.

Options granted under stock option plans generally expire one year after the termination of the option holder's service with ORIX Group.

The following is an outline of the stock option plans authorized since 2008:

	<b>Shares granted</b>	<b>Exercise price per Share</b>	<b>Option expiration date</b>
2008 Stock Acquisition Rights Plan	1,479,000	¥ 1,689	June 24, 2018

**Item 7. Major Shareholders and Related Party Transactions****MAJOR SHAREHOLDERS**

The following table shows our major shareholders registered on our Register of Shareholders as of March 31, 2018.

Each unit of Shares (1 unit = 100 Shares) has one vote, and none of our major shareholders have different voting rights. We do not issue preferred shares.

<b>Name</b>	<b>Number of Shares held (Thousands)</b>	<b>Percentage of Issued shares (%)</b>
Japan Trustee Services Bank, Ltd. (Trust Account)	114,527	8.93
The Master Trust Bank of Japan, Ltd. (Trust Account)	77,985	6.08
Japan Trustee Services Bank, Ltd. (Trust Account 9)	38,225	2.98
CITIBANK, N.A. -N.Y, AS DEPOSITARY BANK FOR DEPOSITARY SHARE HOLDERS	26,904	2.09
Japan Trustee Services Bank, Ltd. (Trust Account 5)	25,136	1.96

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State Street Bank and Trust Company	24,468	1.90
State Street Bank West Client Treaty 505234	24,344	1.89
The Chase Manhattan Bank 385036	23,629	1.84
State Street Bank and Trust Company 505001	22,203	1.73
Japan Trustee Services Bank, Ltd. (Trust Account 7)	20,941	1.63

ORIX is not directly or indirectly owned or controlled by any corporations, by any foreign government or by any natural or legal persons severally or jointly. As of March 31, 2018, the percentage of issued Shares held

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by overseas corporations and individuals was 55.16%. As of March 31, 2018, approximately 5,380,864 ADSs were outstanding (equivalent to 26,904,320 or approximately 2.09% of ORIX's issued Shares as of that date). As of March 31, 2018, all our ADSs were held by one record holder in the United States.

On April 2, 2018, Mitsubishi UFJ Financial Group, Inc. submitted a filing to the Kanto Local Finance Bureau indicating that Mitsubishi UFJ Financial Group, Inc. held 67,702,521 Shares, representing 5.11% of ORIX's outstanding Shares, as part of Mitsubishi UFJ Financial Group, Inc.'s assets under management.

On February 13, 2018, Fidelity Group submitted a filing to the Securities and Exchange Commission indicating that FMR LLC held 67,964,627 Shares, representing 5.13% of ORIX's outstanding Shares, as part of Fidelity Group's assets under management.

On February 8, 2018, Sumitomo Mitsui Trust Holdings, Inc. submitted a filing to the Securities and Exchange Commission indicating that Sumitomo Mitsui Trust Holdings, Inc. held 62,599,200 Shares, representing 4.7% of ORIX's outstanding Shares, as part of Sumitomo Mitsui Trust Holdings, Inc.'s assets under management.

On January 29, 2018, BlackRock Group submitted a filing to the Securities and Exchange Commission indicating that BlackRock Inc., primarily through BlackRock Japan Co., Ltd, held 81,537,083 Shares, representing 6.2% of ORIX's outstanding Shares, as part of BlackRock Group's assets under management.

**RELATED PARTY TRANSACTIONS**

To our knowledge, no individual beneficially owns 5% or more of any class of the Shares that might give that individual significant influence over us. In addition, we are not directly or indirectly owned or controlled by, or under common control with, any enterprise.

We may enter into transactions with shareholders or potential large investors in the ordinary course of our business. We may also enter into transactions in the ordinary course of our business with certain key management personnel or with certain companies over which we, or our key management personnel, may have a significant influence. Our business relationships with these companies and individuals cover many of the financial services we provide our clients generally. We believe that we conduct our business with these companies and individuals in the normal course and on terms equivalent to those that would exist if they did not have equity holdings in us, if they were not our key management personnel, or if we or our key management personnel did not have significant influence over them, as the case may be. None of these transactions is or was material to us or, to our knowledge, to the other party.

Other than as outlined below, since the beginning of our last full fiscal year, there have been no transactions or outstanding loans, including guarantees of any kind, and there are none currently proposed, that are material to us, or to our knowledge, to the other party, between us and any (i) enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, us; (ii) associates; (iii) individuals owning, directly or indirectly, an interest in the voting power of us that gives them significant influence over us, and close members of any such individual's family; (iv) key management personnel, including directors and senior management of companies and close members of such individuals' families; or (v) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (iii) or (iv) or over which such a person is able to exercise significant influence.

There are no outstanding loans (including guarantees of any kind) made by us or any of our subsidiaries to or for the benefit of any of the persons listed in clauses (i) through (v) in the foregoing paragraph other than those listed in the table below. Certain of our affiliates may fall within the meaning of a related party under clauses (i) or (ii) of the

foregoing paragraph. The amount of outstanding loans (including guarantees of any kind) made

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by us to or for the benefit of all our affiliates, including those which may fall within the meaning of a related party, totaled ¥47,111 million as of March 31, 2018 and did not exceed ¥54,000 million at any time during fiscal 2018.

Each of these loans was made in the ordinary course of business. The following table describes, for each related party borrower, the applicable interest rate (or range of interest rates), the largest aggregate amount outstanding during fiscal 2018 and the aggregate amount outstanding as of March 31, 2018.

Related Party	The largest aggregate amount outstanding during fiscal 2018		Aggregate amount outstanding as of March 31, 2018		Interest rate (%)
	(Millions of yen)				
Kansai Airports	¥ 12,329	¥	12,004		6.5
SORA Airlease Limited	18,203		9,126		6.0 9.5
Dalian Financial & Industrial Investment Group Co., Ltd.	8,904		8,883		1.6 6.4
Meritix Airlease Limited	3,994		3,433		6.0 9.5
Shipston Equity Holdings, LLC	2,885		2,769		13.0
H&O MEDICAL INC.	2,090		1,980		5.0
Utsunomiya Central Clinic Medical Corporation DIC	1,960		1,960		5.0
TAS Environmental Services L.P.,	1,264		1,191		12.0
Magix Airlease Limited	1,027		986		9.0
IOS II, LLC	956		956		6.3
Plaza Sunroute Co.	1,000		955		3.5
RAM INDUSTRIES INC.	900		815		13.0
Timber Parent, LLC	599		567		14.0
ALLIANCE ENVIRONMENTAL GROUP, LLC	448		420		12.0
YM Leasing Corporation	406		406		0.9 1.1
Mode Apartments Unit Trust	757		221		3.2
Pacific League Marketing Corporation	157		122		2.9
Sazanka Marine S.A.	130		122		1.0
Tsubaki Marine S.A.	130		122		1.0
Torigin Leasing Corporation	83		49		0.8
Medical Corporation NIDC	20		20		5.0
Kada Greenfarm Co., Ltd.	3		2		3.1
Flexible Energy Service Co., Ltd.	2		2		3.2
Houlihan Lokey, Inc.	1,683		0		2.8
TOMONY Lease, Inc.	60		0		1.0
Hyakugo Leasing Company Limited	30		0		0.8
Tokyo Yamaki Inc.	20		0		2.6
Sharp Office Rental Corporation	7		0		5.1 5.7

A certain subsidiary invests in convertible bonds issued by our affiliates. Although these transactions were made in the ordinary course of business and are not material to us, they may be material to the affiliates. The aggregate principal amount of convertible bonds issued by our affiliates to the subsidiary totaled ¥14,105 million as of

March 31, 2018.

**Item 8. Financial Information**

All relevant financial statements are attached hereto. See Item 18. Financial Statements.

**LEGAL PROCEEDINGS**

See Item 4. Information on the Company Legal Proceedings.

**Table of Contents****DIVIDEND POLICY AND DIVIDENDS**

See Item 10. Additional Information Dividend Policy and Dividends.

**SIGNIFICANT CHANGES**

None.

**Item 9. The Offer and Listing****TOKYO STOCK EXCHANGE**

The primary market for the Shares is the Tokyo Stock Exchange. The Shares have been traded on the First Section of the Tokyo Stock Exchange since 1973.

The following table shows the reported high and low closing sales prices of the Shares on the Tokyo Stock Exchange, excluding off-floor transactions. High and low sales price quotations from the Tokyo Stock Exchange have been translated in each case into dollars per ADS at the noon buying rate for yen expressed in yen per \$1.00 in New York City for cable transfer in foreign currencies on the relevant date or the noon buying rate for yen on the next business day if the relevant date is not a New York business day.

**TOKYO STOCK EXCHANGE PRICE PER SHARE**

	Price per Share (¥)		Translated into dollars per ADS	
	High	Low	High	Low
Fiscal Year ended March 31, 2014	1,873.0	1,152.0	92	61
Fiscal Year ended March 31, 2015	1,788.5	1,300.0	84	57
Fiscal Year ended March 31, 2016	2,022.5	1,262.5	83	59
Fiscal Year ended March 31, 2017				
First fiscal quarter	1,686.5	1,256.0	77	62
Second fiscal quarter	1,569.5	1,251.0	76	63
Third fiscal quarter	1,895.0	1,440.5	83	69
Fourth fiscal quarter	1,898.0	1,647.5	81	74
Fiscal Year ended March 31, 2018				
First fiscal quarter	1,803.5	1,636.0	82	74
Second fiscal quarter	1,851.0	1,708.5	84	78
Third fiscal quarter	2,039.5	1,805.5	89	81
Fourth fiscal quarter	2,210.0	1,818.5	100	85
Recent Six Months				
December 2017	1,935.0	1,867.0	86	83
January 2018	2,210.0	1,977.0	100	85
February 2018	2,055.0	1,818.5	94	86
March 2018	1,914.0	1,819.5	90	87
April 2018	1,924.0	1,834.5	88	86
May 2018	2,008.5	1,896.0	93	84



**NEW YORK STOCK EXCHANGE**

The ADS are listed on the New York Stock Exchange under the symbol IX.

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One ADSs represents five Shares. On March 31, 2018, approximately 5,380,864 ADSs were outstanding. This is equivalent to 26,904,320 or approximately 2.10% of the total number of Shares outstanding on that date. On that date, all our ADSs were held by one record holder in the United States.

The following table provides the high and low closing sales prices and the average daily trading volume of the ADSs on the New York Stock Exchange based on information provided by Bloomberg L.P.

**NYSE PRICE PER ADS**

	Price per ADS (\$)		Average daily trading volume (shares)
	High	Low	
Fiscal Year ended March 31, 2014	92	61	22,160
Fiscal Year ended March 31, 2015	84	57	21,637
Fiscal Year ended March 31, 2016	83	59	35,003
Fiscal Year ended March 31, 2017			
First fiscal quarter	77	62	47,269
Second fiscal quarter	76	63	50,070
Third fiscal quarter	83	69	45,264
Fourth fiscal quarter	81	74	36,993
Fiscal Year ended March 31, 2018			
First fiscal quarter	82	74	32,153
Second fiscal quarter	84	78	29,846
Third fiscal quarter	89	81	23,104
Fourth fiscal quarter	100	85	42,209
Recent Six Months			
December 2017	86	83	20,002
January 2018	100	85	41,142
February 2018	94	86	56,571
March 2018	90	87	31,261
April 2018	88	86	25,113
May 2018	93	84	38,280

**Item 10. Additional Information****MEMORANDUM AND ARTICLES OF INCORPORATION****Purposes**

Our corporate purposes, as provided in Article 2 of our Articles of Incorporation, are to engage in the following businesses: (i) lease, purchase and sale (including purchase and sale on an installment basis), maintenance and management of movable property of all types; (ii) moneylending business, purchase and sale of claims of all types, payment on behalf of third parties, guarantee and assumption of obligations, agent for collection of money and other financial business; (iii) holding, investment in, management, purchase and sale of financial instruments such as securities and other investment business; (iv) advice, brokerage and agency relating to the merger, capital participation, business alliance and business succession and reorganization, etc.; (v) financial instruments and exchange business, financial instruments broker business, banking, trust and insurance business, advisory service

business relating to investment in commodities, trust agreement agency business and credit management and collection business; (vi) non-life insurance agency business, insurance agency business under the Automobile Accident Compensation Security Law, and service related to soliciting life insurance;(vii) lease, purchase and sale, ground preparation, development, maintenance and management of real property and warehousing; (viii) contracting for construction, civil engineering, building utility and interior and exterior

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furnishing, and design and supervision thereof; (ix) management of various facilities for sports, lodging, restaurant, medical treatment, welfare and training and education, and conducting sports, etc.; (x) facility planning, development, maintenance, management and operation of airports, roads, other public facilities and similar kinds of aforementioned facilities and the assumption or undertaking of public works; (xi) production, processing, sale, purchase, research and development of agricultural products, food products and agriculture-related products and facilities; (xii) waste-disposal business; (xiii) trading of emission rights for greenhouse gases and other various subjects; (xiv) supply of various energy resources and the products in relation thereto; (xv) planning, developing, contracting for, lease and sale of, intangible property rights; (xvi) information processing and providing services, telecommunications business; (xvii) business of dispatching workers to enterprise and employment agency business; (xviii) purchase and sale of antiques; (xix) transport business; (xx) mining of various minerals, and the manufacture and sale of the products in relation thereto; (xxi) business support and consulting; (xxii) brokerage, agency, investigation, manufacturing, processing, research and development for business relating to any of the preceding items, and other business; (xxiii) as a result of holding shares in a subsidiary company engaged in those activities, engaging in business relating to any of the preceding items and managing such company's business activities; and (xxiv) any and all businesses incidental or related to any of the preceding items.

**Directors and Board of Directors, and Committees**

There shall be no less than three directors of the Company (Article 16). The term of office of a director is for one (1) year and expires upon conclusion of the annual General Meeting of Shareholders relating to the last fiscal year ending within one year after election of director (Article 18). Resolutions of the Board of Directors are adopted by a majority vote of the directors present at a meeting attended by a majority of the directors who may participate in making resolutions (Article 21).

There is no provision in our Articles of Incorporation as to a director's power to vote on a proposal or arrangement in which the director is materially interested, but, under the Companies Act or Regulations of the board of directors, the director must refrain from voting on such matters at meetings of the board of directors. Under the Companies Act, the board of directors may, by resolution, delegate to the executive officers its authority to make decisions with regard to certain important matters, including the incurrence by ORIX of a significant amount of loan, prescribed by law.

We are required to maintain a Nominating Committee, an Audit Committee and a Compensation Committee (Article 10). The Compensation Committee sets the specific compensation for each individual director and executive officer based on the policy for determining compensation for directors and executive officers (see Item 6). No member of the Compensation Committee may vote on a resolution with respect to his or her own compensation as a director.

Neither the Companies Act nor our Articles of Incorporation includes special provisions as to the retirement age of directors, or a requirement to hold any shares of capital stock of ORIX to qualify him or her as a director of ORIX.

**Stock**

Our authorized share capital is 2,590,000,000 shares. Currently our Articles of Incorporation provide only for the issuance of shares of common stock. All shares of capital stock of us have no par value. All issued shares are fully-paid and non-assessable.

Unless shareholders' approval is required as described in **Voting Rights**, the shares will be issued under a resolution approved by the board of directors and a decision made by the executive officer under delegation by the board of directors.



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For changes in the number of shares issued for the past three fiscal years, see Note 21 of Item 18. Financial Statements.

Under the Act on Book-Entry Transfer of Corporate Bonds, Shares, Etc. of Japan and regulations thereunder, or the Book-Entry Law, in Japan, every share which is listed on any of the stock exchanges in Japan shall be transferred and settled only by the central clearing system provided by Japan Securities Depository Center, Inc. ( JASDEC ) and all Japanese companies listed on any Japanese stock exchange no longer issue share certificates. Shareholders of listed shares must have accounts at account management institutions to hold their shares unless such shareholder has an account at JASDEC, and any transfer of shares is effected through book entry, and title to the shares passes to the transferee at the time when the transferred number of the shares is recorded in the transferee's account at an account managing institution under the Book-Entry Law. The holder of an account at an account managing institution is presumed to be the legal owner of the shares recorded in such account. Under the Companies Act and the Book-Entry Law, in order to assert shareholders' rights against us, the transferee must have his or her name and address registered on our Register of Shareholders, except in limited circumstances. Foreign shareholders may file specimen signatures in lieu of seals. Nonresident shareholders are required to appoint a standing proxy in Japan or designate a mailing address in Japan. The registration of transfer and the application for reduced withholding tax on dividends can usually be handled by a standing proxy. See Taxation Japanese Taxation. Japanese securities companies and commercial banks customarily will act as standing proxies and provide related services for standard fees.

Our transfer agent is Mitsubishi UFJ Trust and Banking Corporation, located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan.

In general, there are no limitations on the right to own shares of our common stock, including the rights of nonresidents or foreign shareholders to hold or exercise voting rights on the securities imposed under Japanese law or by our Articles of Incorporation.

Settlement of transactions for shares listed on any of the stock exchanges in Japan will normally be effected on the fourth trading day from and including the transaction date. Settlement in Japan shall be made through JASDEC as described above.

## **Distributions of Surplus**

Ordinary Dividends and Interim Dividends may be distributed by us in cash to shareholders or pledgees of record as of March 31 (in the case of Ordinary Dividends) or September 30 (in the case of Interim Dividends) of each year in proportion to the number of shares held by each shareholder or registered pledgee, as the case may be.

We may make distributions of surplus to the shareholders any number of times per fiscal year, subject to certain limitations as described below. Under our Articles of Incorporation, distributions of cash dividends need to be declared by a resolution of the board of directors. Distributions of surplus may be made in cash or in kind in proportion to the number of shares held by respective shareholders. A resolution of the board of directors authorizing a distribution of surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of surplus is to be made in kind, we may, pursuant to a resolution of a general meeting of shareholders or the board of directors, as the case may be, grant a right to the shareholders to require us to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of surplus must be approved by a special resolution of a general meeting of shareholders.

Under our Articles of Incorporation, if Ordinary Dividends are distributed for common shares, we treat the shareholders or share pledgees registered or recorded on the Register of Shareholders as of March 31 of each year as the people having rights to receive such dividends. In case of the distribution of Interim Dividends, we

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distribute these to the shareholders or share pledgees registered or recorded on the Register of Shareholders as of September 30 each year. Dividends or other distributable assets shall not incur interest thereon. If the relevant distributed assets are not received within a full three years from the date on which the distribution of relevant distributed assets became effective, we may be released from its obligation to distribute such assets.

Under the Companies Act, when we make distributions of surplus, if the sum of our capital reserve (*shihonjunbikin*) and earned surplus reserve (*riekijunbikin*) is less than one-quarter of our stated capital, we must, until such sum reaches one-quarter of the stated capital, set aside in our capital reserve and/or earned surplus reserve an amount equal to one-tenth of the amount of surplus so distributed as required by ordinances of the Ministry of Justice.

The amount of surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D - (E + F + G)$$

In the above formula:

- A = the total amount of other capital surplus and other earnings surplus, each such amount being that appearing on our nonconsolidated balance sheet as of the end of the last fiscal year;
- B = (if we have disposed of our treasury stock after the end of the last fiscal year) the amount of the consideration for such treasury stock received by us less the book value thereof;
- C = (if we have reduced our stated capital after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to capital reserve or earned surplus reserve (if any);
- D = (if we have reduced our capital reserve or earned surplus reserve after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any);
- E = (if we have cancelled our treasury stock after the end of the last fiscal year) the book value of such treasury stock;
- F = (if we have distributed surplus to our shareholders after the end of the last fiscal year) the amount of the assets distributed to shareholders by way of such distribution of surplus;
- G = certain other amounts set forth in an ordinance of the Ministry of Justice, including (if we have reduced surplus and increased stated capital, capital reserve or earned surplus reserve after the end of the last fiscal year) the amount of such reduction and (if we have distributed surplus to our shareholders after the end of the last fiscal year) the amount set aside in capital reserve or earned



surplus reserve (if any) as required by ordinances of the Ministry of Justice.

Under the Companies Act, the aggregate book value of surplus distributed by us may not exceed a prescribed distributable amount, as calculated on the effective date of such distribution. Our distributable amount at any given time shall be the amount of surplus less the aggregate of: (a) the book value of our treasury stock; (b) the amount of consideration for any of our treasury stock disposed of by us after the end of the last fiscal year; and (c) certain other amounts set forth in an ordinance of the Ministry of Justice, including (if the total of the one-half of goodwill and the deferred assets exceeds the total of stated capital, capital reserve and earned surplus reserve, each such amount being that appearing on our nonconsolidated balance sheet as of the end of the last fiscal year) all or certain part of such exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice. If we have opted to become a company that applies the restriction on distributable amounts on a consolidated basis (*renketsu haito kisei tekiyo kaisha*), we will further deduct from the amount of surplus a certain amount which is calculated based on our nonconsolidated and consolidated balance sheets as of the end of the last fiscal year as provided in ordinances of the Ministry of Justice.

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If we have prepared interim financial statements as described below after the end of the last fiscal year, and if such interim financial statements have been approved by our board of directors or (if so required) by a general meeting of our shareholders, then the distributable amount must be adjusted to take into account the amount of profit or loss as set forth in ordinances of the Ministry of Justice, and the amount of consideration for any of our treasury stock disposed of by us, during the period in respect of which such interim financial statements have been prepared. Under the Companies Act, we are permitted to prepare nonconsolidated interim financial statements consisting of a balance sheet as of any date subsequent to the end of the last fiscal year and an income statement for the period from the first day of the current fiscal year to the date of such balance sheet. Interim financial statements prepared by us must be reviewed by our accounting auditor, as required by an ordinance of the Ministry of Justice.

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividend to be paid. The price of the shares generally goes ex-dividend on the second business day prior to the record date.

## **Capital and Reserves**

When we issue new shares, the amount of the cash or assets paid or contributed by subscribers for the new shares (with some exceptions) is required to be accounted for as stated capital, although we may account for an amount not exceeding one-half of the cash or assets as capital reserve by resolutions of the board of directors.

We may at any time transfer the whole or any part of our additional paid-in capital and legal reserve to stated capital by a resolution of a general meeting of shareholders. The whole or any part of surplus which may be distributed as Ordinary Dividends or Interim Dividends may also be transferred to stated capital by a resolution of a general meeting of shareholders. We may, by a resolution of a general meeting of shareholders (in the case of the reduction of stated capital, a special resolution of a general meeting of shareholders, see [Voting Rights](#) ) reduce stated capital, additional paid-in capital and/or legal reserve.

## **Stock Splits**

We may at any time split the shares into a greater number of shares by resolution of the board of directors. When the board of directors resolves on the split of shares, it may also amend the Articles of Incorporation to increase the number of authorized shares to be issued in proportion to the relevant stock split. We must give public notice of the stock split, specifying the record date therefore, not less than two weeks prior to such record date.

On October 26, 2012, the board of directors adopted a resolution on a ten-for-one stock split, effective as of April 1, 2013. The record date for the stock was one day prior to the effective date of the stock split. Our Articles of Incorporation were amended to increase the authorized share capital to cover the number of shares increased by the stock split, which amendment became effective simultaneously with the effectiveness of the stock split.

## **Unit Share System**

Our Articles of Incorporation provides that one hundred shares constitute one unit of shares. The number of shares constituting a unit may be altered by amending our Articles of Incorporation. The number of shares constituting a unit is not permitted to exceed 1,000 shares.

A shareholder may not exercise shareholders' rights in relation to any shares that it holds that are less than one unit other than the rights set forth below under the Companies Act and the Articles of Incorporation.

- (i) The right to receive the distribution of money, etc., when the Company distributes the money, etc. in exchange for acquiring one class of shares subject to terms under which the Company shall acquire all of such class shares;

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- (ii) The right to receive the distribution of money, etc., in exchange for acquisition of shares subject to terms under which the Company shall acquire such shares;
- (iii) The right to receive allocation of shares when the Company allocates its shares without having a shareholder make new payment;
- (iv) The right to demand that the Company purchase shares that are less than one Unit held by the shareholder;
- (v) The right to receive distribution of remaining assets;
- (vi) The right to demand review of the Articles of Incorporation and the Register of Shareholders and delivery of their copies or a document describing registered matters, etc.;
- (vii) The right to demand registration or recordation of matters to be registered or recorded on the Register of Shareholders when the shareholder acquired the shares;
- (viii) The right to receive the distribution of money, etc. pursuant to reverse stock split, stock split, allocation of stock acquisition right for free (which means that the Company allocates its stock acquisition right without having a shareholder make new payment), distribution of dividends from retained earnings or change of corporate organization;
- (ix) The right to receive the distribution of money, etc. to be distributed pursuant to merger, share exchange or share-transfer effected by the Company;
- (x) The right to subscribe to Offering Shares and Offering Stock Acquisition Rights on a pro rata basis based upon the number of shares held by the shareholder; and
- (xi) The right to demand that the Company sell to the shareholder the number of additional shares necessary to make the number of shares of less than one Unit held by the shareholder, equal to one Unit.

Under the book-entry transfer system operated by JASDEC, shares constituting less than one unit are generally transferable. Under the rules of the Japanese stock exchanges, however, shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges.

A holder of shares constituting less than one unit may require us to purchase such shares at their market value in accordance with the provisions of our Share Handling Regulations. In addition, our Articles of Incorporation provide that a holder of shares constituting less than one unit may request us to sell to such holder such amount of shares which will, when added together with the shares constituting less than one unit held by such holder, constitute one unit of shares, in accordance with the provisions of the Share Handling Regulations.

## **General Meetings of Shareholders**

The ordinary general meeting of our shareholders is usually held in Tokyo in June of each year. In addition, we may hold an extraordinary general meeting of shareholders whenever necessary. Notice of a shareholders meeting stating the place, time and purpose thereof must be dispatched to each shareholder (or, in the case of a nonresident shareholder, to its resident proxy or mailing address in Japan) having voting rights at least two weeks prior to the date of such meeting. The record date for an ordinary general meeting of shareholders is March 31 of each year. General meetings of shareholders can be called by a director pursuant to a resolution of the board of directors.

Any shareholder or group of shareholders with at least 3.0% of the total number of voting rights for a period of six months or longer may require the convocation of a general meeting of shareholders for a particular purpose by showing such a purpose and reason for convocation to one of our directors. Unless such shareholders meeting

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is convened promptly or a convocation notice of a meeting which is to be held not later than eight weeks from the day of such demand is dispatched, the requiring shareholder may, upon obtaining a court approval, convene such shareholders meeting.

Any shareholder or group of shareholders holding at least 300 voting rights or 1.0% of the total number of voting rights for six months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a written request to one of our directors at least eight weeks prior to the date of such meeting.

Under the Companies Act, any of minimum percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened if the articles of incorporation of a joint stock corporation so provide.

## **Voting Rights**

A holder of shares constituting one or more units is entitled to one vote for each unit. However, we do not have voting rights with respect to our own shares and if we directly or indirectly own 25% or more of voting rights of a corporate or other entity which is a shareholder, such corporate shareholder cannot exercise its voting rights. Except as otherwise provided by law or in our Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by a majority of the number of voting rights represented at the meeting. The quorum for election of directors is one-third of the total number of voting rights. Our shareholders are not entitled to cumulative voting in the election of directors. Our shareholders may exercise their voting rights through proxies, provided that the proxies are also shareholders having voting rights.

Under the Companies Act and our Articles of Incorporation, any amendment to our Articles of Incorporation (except for certain amendments, see *Stock Splits* ) and certain other instances require approval by a special resolution of shareholders, where the quorum is one-third of the total number of voting rights and the approval by at least two-thirds of the number of voting rights represented at the meeting is required. Other instances requiring such a special resolution include (i) the reduction of its stated capital, (ii) the removal of a director, (iii) the dissolution, liquidation, merger or consolidation, merger and corporate split or (iv) the formation of a parent company by way of share exchange or share transfer, (v) the transfer of the whole or a substantial part of its business, (vi) the acquisition of the whole business of another company, (vii) the issue to persons other than the shareholders of new shares at a specially favorable price or the issue or transfer to persons other than the shareholders of stock acquisition rights (including those incorporated in bonds with stock acquisition rights) under specially favorable conditions, (viii) consolidation of shares and (ix) acquisition of its own shares from a specific party other than its subsidiaries.

## **Subscription Right**

Holders of the shares have no pre-emptive rights. The board of directors may, however, determine that shareholders be given subscription rights to new shares, in which case such rights must be given on uniform terms to all shareholders as of a record date of which not less than two weeks prior public notice must be given. The issue price of such new shares must be paid in full.

## **Stock Acquisition Rights**

We may issue stock acquisition rights (*shinkabu yoyakuken*) and bonds with stock acquisition rights (*shinkabu yoyakuken-tsuki shasai*). Except where the issue would be on specially favorable conditions, the issue of stock acquisition rights or bonds with stock acquisition rights may be authorized by a resolution of the board of directors. Upon exercise of the stock acquisition rights, the holder of such rights may acquire shares by way of payment of the

applicable exercise price or, if so determined by a resolution of the board of directors, by way of substitute payments in lieu of redemption of the bonds. If our Articles of Incorporation prohibit us from delivering shares, it will pay a cash payment equal to the market value of the shares.

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### **Liquidation Rights**

In the event of our liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among shareholders in proportion to the respective number of shares which they hold.

### **Reports to Shareholders**

We currently furnish to our shareholders notices of shareholders meetings, annual business reports, including financial statements, and notices of resolutions adopted at the shareholders meetings, all of which are in Japanese. Public notice shall be electronic public notice, provided, however, that if the Company is unable to give an electronic public notice due to an accident or any other unavoidable reason, public notices of the Company shall be given in the Nihon Keizai Shinbun.

### **Record Date of Register of Shareholders**

As stated above, March 31 is the record date for the payment of Ordinary Dividends and the determination of shareholders entitled to vote at the ordinary general meeting of shareholders. In addition, we may set a record date for determining the shareholders entitled to other rights and for other purposes by giving at least two weeks prior public notice. Under the Book-Entry Law, JASDEC is required to give us a notice of the names and addresses of the shareholders, the number of shares held by them and other relevant information as of each such record date, and the register of our shareholders shall be updated accordingly.

### **Repurchase of Own Shares**

We may acquire our shares, including shares of our common stock: (i) by way of purchase on any Japanese stock exchange or by way of tender offer (pursuant to a resolution of the board of directors); (ii) from a specific shareholder other than any of our subsidiaries (pursuant to a special resolution of a general meeting of shareholders); or (iii) from any of our subsidiaries (pursuant to a resolution of the board of directors).

In the case of (ii) above, any other shareholder of such class may make a request to a director, at least five days prior to the relevant shareholders meeting, to include such shareholder as a seller in the proposed purchase. However, no such right will be available if the relevant class of shares is listed on any Japanese stock exchange and the purchase price or any other consideration to be received by the relevant specific shareholder does not exceed the then market price of the shares calculated in a manner set forth in ordinances of the Ministry of Justice.

Any such acquisition of our shares must satisfy certain requirements that the total amount of the purchase price may not exceed the distributable amount, as described in Distributions of Surplus. We may hold our shares acquired in compliance with the provisions of the Companies Act, and may generally cancel such shares by a resolution of the board of directors, although the disposal of such shares is subject to the same proceedings for the issuance of new shares, in general.

### **Stock Options**

Under the Companies Act, a stock option plan is available by issuing stock acquisition rights.

Generally, a stock option plan may be adopted by a resolution of the board directors. However, if the conditions of such stock acquisition rights are specially favorable, a special resolution at a general meeting of shareholders is required. The special resolution must set forth the class and number of shares to be issued or transferred on exercise of



the options, the exercise price, the exercise period and other terms of the options.

**MATERIAL CONTRACTS**

Not applicable.

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**Table of Contents****FOREIGN EXCHANGE AND OTHER REGULATIONS****Foreign Exchange**

The Foreign Exchange and Foreign Trade Law of Japan, as amended, and the cabinet orders and ministerial ordinances thereunder (the Foreign Exchange Regulations ) govern the acquisition and holding of shares of capital stock of ORIX by exchange nonresidents and by foreign investors (as defined below). The Foreign Exchange Regulations currently in effect do not, however, regulate transactions between exchange nonresidents who purchase or sell shares outside Japan for non-Japanese currencies.

Exchange nonresidents are defined as individuals who are not resident in Japan and corporations whose principal offices are located outside Japan. Generally, the branch and other offices of nonresident corporations located within Japan are regarded as residents of Japan and branch and other offices of Japanese corporations located outside Japan are regarded as exchange nonresidents. Foreign investors are defined to be (i) individuals who are exchange nonresidents, (ii) corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan, and (iii) corporations (1) of which 50% or more of their voting rights are held, directly or indirectly, by (i) and/or (ii) or (2) a majority of the officers (or officers having the power of representation) of which are nonresident individuals.

In general, the acquisition of a Japanese company's stock shares (such as the shares of capital stock of ORIX) by an exchange nonresident from a resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, prior notification or report to the Minister of Finance and any other competent Ministers for an acquisition of this type may be required. While prior notification, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company (such as the shares of capital stock of ORIX) for consideration exceeding ¥100 million to an exchange nonresident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank, securities company or financial future trader licensed under the Japanese laws.

If a foreign investor acquires shares of a Japanese company listed on a Japanese stock exchange (such as the shares of capital stock of ORIX) or that are traded on an over-the-counter market in Japan and as a result of the acquisition the foreign investor in combination with any existing holdings directly or indirectly holds 10% or more of the issued shares of the relevant company, the foreign investor is, in general, required to report such acquisition to the Minister of Finance and any other competent Ministers by the 15th day of the calendar month following the date of such acquisition. In certain exceptional cases, prior notification is required with respect to such an acquisition.

The acquisition of shares by exchange nonresidents by way of stock split is not subject to the foregoing notification requirements.

Under the Foreign Exchange Regulations, dividends paid on, and the proceeds of sales in Japan of, Shares held by nonresidents of Japan may in general be converted into any foreign currency and repatriated abroad.

**Large Shareholdings Report**

The Financial Instruments and Exchange Act requires any person who has become, beneficially and solely or jointly, a holder of more than 5% of the total issued shares of capital stock of a company listed on any Japanese financial instruments exchange (such as the shares of capital stock of ORIX) or whose shares are traded on the over-the-counter markets in Japan, to file with the Prime Minister within five business days a report concerning such shareholdings. An alteration report must also be made in respect of any subsequent change of 1% or more in any such holding or any

change in material matters set out in reports previously filed, with certain exceptions. For this purpose, shares issuable to such person upon his exchange of exchangeable securities or exercise of Stock Acquisition Rights are taken into account in determining both the size of his holding and the issuer's total issued share capital.

**Table of Contents****Filing of Share Acquisition Plan**

The Act on Prohibition of Private Monopolization and Maintenance of Fair Trade requires any company (including a foreign company) which crosses certain domestic sales thresholds and newly acquires a holder of more than 20% or 50% of the total issued voting shares of capital stock (such as the shares of capital stock of ORIX) or the shares of a company (including a foreign company) which meets certain conditions, to file a share acquisition plan concerning such shares with the Fair Trade Commission at least 30 days prior to the closing or the acquisition.

**DIVIDEND POLICY AND DIVIDENDS**

ORIX has paid dividends on the Shares on an annual basis in each year since 1967. With the adoption of a Company with Committees board model in June 2003, the board of directors has been responsible for setting the annual dividend per common share since the fiscal year ended March 31, 2004. The board of directors approves annual dividends at the board of directors meeting customarily held in May of each year. Following such approval, dividends are paid to holders of record as of the preceding March 31. We have implemented an interim dividend starting from the fiscal year ended March 31, 2016 (dividend calculation based on the retained earnings recorded on September 30, 2015).

The following table shows the amount of dividends applicable to fiscal year per share for each of the fiscal years indicated, which amounts are translated into dollars per ADS at the noon buying rate for Japanese yen in New York City for cable transfers in foreign currencies on the relevant dividend payment date as published by the Federal Reserve Bank.

<b>Year ended</b>	<b>Dividends applicable to fiscal year per Share</b>	<b>Translated into dollar per ADS</b>
March 31, 2014	23.00	1.12
March 31, 2015	36.00	1.45
March 31, 2016	45.75	2.09
March 31, 2017	52.25	2.39
March 31, 2018	66.00	3.01

ORIX aims to increase shareholder value by utilizing profits earned from business activities that were secured primarily as retained earnings, to strengthen its business foundation and make investments for future growth. At the same time, ORIX strives to make stable and sustainable distribution of dividends at a level in line with its business performance. In addition, with regards to the decision of whether to buy back shares, ORIX aims to act with flexibility and swiftness while considering various factors such as the adequate level of the Company's retained earnings, the soundness of its financial condition and external factors such as changes in the business environment, share price and its trend and target performance indicators.

Based on this fundamental policy, the dividend payout ratio for the fiscal year ended March 31, 2018 has been decided at 27%, up 2% from the fiscal year ended March 31, 2017, and the annual dividend is 66.00 yen per share (interim dividend paid was 27.00 yen per share and year-end dividend is 39.00 yen per share) from 52.25 yen per share in the previous fiscal year.



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For the next fiscal year ending March 31, 2019, we expect the dividend payout ratio will be maintained at 27% with a focus on the optimal balance of securing of capital for investment in future profit growth and the making of stable and sustainable distribution of dividends to shareholders. The interim dividend for the next fiscal year is forecasted at 30.00 yen per share. The year-end dividend for the next fiscal year is to be determined.

Pursuant to the amendment to the Act on Special Measures Concerning Taxation, dividends paid to U.S. Holders of Shares or ADSs are generally subject to a Japanese withholding tax. The tax rate can be found in Item 10 TAXATION, JAPANESE TAXATION *Shares*.

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**Table of Contents****TAXATION****JAPANESE TAXATION**

The following is a summary of the principal Japanese tax consequences for owners of the Shares or ADSs who are nonresident individuals of Japan or non-Japanese corporations without a permanent establishment in Japan ( nonresident Holders ). The statements regarding Japanese tax laws set forth below are based on the laws in force and as interpreted by the Japanese taxation authorities as of the date hereof and are subject to changes in the applicable Japanese laws or conventions for the avoidance of double taxation occurring after that date. This summary is not exhaustive of all possible tax considerations that may apply to a particular investor and potential investors are advised to consult with their own tax advisors to satisfy themselves as to:

the overall tax consequences of the acquisition, ownership and disposition of Shares or ADSs, including specifically the tax consequences under Japanese law;

the laws of the jurisdiction of which they are resident; and

any tax treaty between Japan and their country of residence.

***Shares***

Generally, a nonresident Holder is subject to Japanese withholding tax on dividends on Shares or ADSs paid by us. Stock splits are not subject to Japanese income or corporation tax.

Pursuant to the Act on Special Measures Concerning Taxation and the Act on Special Measures Concerning the Securing of Financial Resources for Reconstruction Measures Involving the Great East Japan Earthquake, the Japanese withholding tax rate applicable to dividends on Shares or ADSs paid to nonresident Holders by us is 15.315% for dividends. However, where an individual nonresident Holder who holds 3% or more of the total number of shares issued by us, the withholding tax rate applicable will be 20.42% for dividends. Japan has entered into income tax treaties, conventions and agreements where this withholding tax rate is, in some cases, reduced to a lower percentage for portfolio investors. Nonresident Holders who are entitled under an applicable treaty, convention, or agreement to this reduced Japanese withholding tax rate are required to submit an Application Form for the Income Tax Convention regarding Relief from Japanese Income Tax on Dividends in advance through us to the relevant Japanese tax authority before the payment of dividends. A standing proxy for a nonresident Holder may provide such application service. Nonresident Holders who do not submit an application in advance will be entitled to claim the refund from the relevant Japanese tax authority of those withholding taxes withheld in excess of the rate of an applicable tax treaty.

The Convention between the United States and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the Tax Convention ) provides for a maximum rate of Japanese withholding tax which may be imposed on dividends paid to an eligible United States resident not having a permanent establishment in Japan. Under the Tax Convention, the maximum withholding rate is generally limited to 10% of the relevant dividends.

Gains derived from the sale outside Japan of Shares or ADSs by a nonresident Holder, are, in general, not subject to Japanese income or corporation taxes.

Japanese inheritance and gift taxes, at progressive rates, may be payable by an individual who has acquired Shares or ADSs as a legatee, heir or donee.

## **UNITED STATES TAXATION**

The following discussion describes the material U.S. federal income tax consequences of ownership and disposition of Shares or ADSs held as capital assets by U.S. Holders (described below).



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This discussion does not describe all of the tax consequences that may be relevant to a U.S. holder in light of the holder's particular circumstances (including the application of the provisions of the code known as the Medicare contribution tax) or to holders subject to special rules, such as:

certain financial institutions;

insurance companies;

dealers and traders in securities who use a mark-to-market method of tax accounting;

persons holding Shares or ADSs as part of a hedging transaction, straddle, conversion transaction or other integrated transaction;

persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;

entities classified as partnerships for U.S. federal income tax purposes;

persons subject to the alternative minimum tax;

tax-exempt entities, including individual retirement accounts and Roth IRAs ;

regulated investment companies;

persons that own or are deemed to own 10% or more of the stock of the Company, by vote or value;

persons holding the shares or ADSs in connection with a trade or business carried on outside the United States; or

persons who acquired Shares or ADSs pursuant to the exercise of any employee stock option or otherwise as compensation.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Shares or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding Shares or ADSs and partners in such partnerships should consult their tax advisors as to the particular U.S. federal income tax consequences of holding and disposing of Shares or ADSs.

This summary is based on the Internal Revenue Code of 1986, as amended, (the Code ) administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the Tax Convention, changes to any of which subsequent to the date of this annual report may affect the tax consequences described herein. It is also based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms.

As used herein, the term U.S. Holder means a beneficial owner of Shares or ADSs that is for U.S. federal income tax purposes:

a citizen or individual resident of the United States;

a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof; or

an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

We believe we may have been a passive foreign investment company (a PFIC ) for the year to which this annual report relates. However, because of uncertainties in the manner of application of the PFIC rules, including uncertainties as to the valuation and proper characterization of certain of our assets as passive or active, our PFIC status is uncertain. In addition, we may be a PFIC in the foreseeable future.

Persons considering the purchase of Shares or ADSs should consult their tax advisors with regard to the PFIC rules described below as well as the application of other U.S. federal income tax laws relevant to their particular situations and any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

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In general, a U.S. Holder of ADSs will be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if the U.S. Holder exchanges ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom American depositary shares are released prior to delivery of shares to the depositary ( pre-release ), or intermediaries in the chain of ownership between U.S. Holders and the issuer of the security underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of American depositary shares. Accordingly, the creditability of Japanese taxes, described below, could be affected by actions taken by such parties or intermediaries.

***Taxation of Distributions***

Subject to the PFIC rules described below, distributions paid on Shares or ADSs, other than certain pro rata distributions of common shares, will generally be treated as dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Assuming that we are a PFIC, dividends paid by us will not be eligible for the preferential dividend tax rate otherwise available to certain non-corporate U.S. Holders. The amount of a dividend will include any amounts withheld by us or our paying agent in respect of Japanese taxes, as discussed above under *Taxation Japanese Taxation Shares*. The amount of the dividend will be treated as foreign source dividend income to U.S. Holders and will not be eligible for the dividends received deduction generally allowed to U.S. corporations under the Code.

Dividends paid in yen will be included in the income of a U.S. Holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of the U.S. Holder's (or, in the case of ADSs, the depositary's) receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize a foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have a foreign currency gain or loss if such holder does not convert the amount of such dividend into U.S. dollars on the date of its receipt. Any foreign currency gain or loss resulting from the conversion of the yen will generally be treated as U.S. source ordinary income or loss.

Subject to the PFIC rules described below and to applicable limitations that may vary depending upon the U.S. Holder's circumstances, and subject to the discussion above regarding concerns expressed by the U.S. Treasury, Japanese taxes withheld from dividends on Shares or ADSs at a rate not exceeding the applicable rate provided for by the Tax Convention will be creditable against the U.S. Holder's U.S. federal income tax liability. The maximum rate of withholding tax on dividends paid to a U.S. Holder pursuant to the Tax Convention is 10%. As discussed under *Taxation Japanese Taxation Shares* above, under current Japanese law, the statutory rate is higher than the maximum Tax Convention rate. Japanese taxes withheld in excess of the rate applicable under the Tax Convention will not be eligible for credit against a U.S. Holder's federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. The rules governing foreign tax credits are complex and, therefore, U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits in their particular circumstances. Instead of claiming a credit, U.S. Holders may, upon election, deduct such otherwise creditable Japanese taxes in computing taxable income, subject to generally applicable limitations under U.S. law.

***Passive Foreign Investment Company Rules***

If we are a PFIC for any year during a U.S. Holder's holding period of the Shares or ADSs, and the U.S. Holder has not made a mark-to-market election for the Shares or ADSs, as described below, the holder will be subject to special rules generally intended to eliminate any benefits from the deferral of U.S. federal income tax that a holder could derive from investing in a foreign corporation that does not distribute all of its earnings on a current basis. Upon a

disposition of Shares or ADSs (including under certain circumstances, a pledge, and under

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proposed Treasury regulations, a disposition pursuant to certain otherwise tax-free reorganizations) gain recognized by a U.S. Holder would be allocated ratably over its holding period for the Shares or ADSs. The amounts allocated to the taxable year of the sale or other exchange and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations for such year, as appropriate, and an interest charge would be imposed on the resulting tax liability. Similar rules would apply to any distribution in respect of Shares or ADSs to the extent it exceeds 125 percent of the average of the annual distributions on Shares or ADSs received during the preceding three years or the U.S. Holder's holding period, whichever is shorter (any such distribution, an excess distribution). Any loss realized on a disposition of Shares or ADSs will be capital loss, and will be long-term capital loss if the U.S. Holder held the Shares or ADSs for more than one year. The amount of the loss will equal the difference between the U.S. Holder's tax basis in the Shares or ADSs disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. Such loss will generally be U.S.-source loss for foreign tax credit purposes.

If we are a PFIC for any year during which a U.S. Holder holds Shares or ADSs, we generally will continue to be treated as a PFIC with respect to the U.S. Holder for all succeeding years during which the U.S. Holder holds Shares or ADSs, even if we cease to meet the threshold requirements for PFIC status. U.S. Holders should consult their tax advisers regarding the potential availability of a deemed sale election that would allow them to eliminate this continuing PFIC status.

If we are a PFIC, U.S. Holders will be deemed to own their proportionate shares of our subsidiaries that are PFICs and will be subject to U.S. federal income tax according to the rules described above on (i) certain distributions by subsidiary PFICs and (ii) a disposition of shares of a subsidiary PFIC, even though holders have not received the proceeds of those distributions or dispositions directly.

If the Shares or ADSs are regularly traded on a qualified exchange, a U.S. Holder of Shares or ADSs would be eligible to make a mark-to-market election that would result in tax treatment different from the general tax treatment for PFICs described above. The Shares or ADSs will be treated as regularly traded in any calendar year in which more than a *de minimis* quantity of the Shares or ADSs are traded on a qualified exchange for at least 15 days during each calendar quarter. A qualified exchange includes the NYSE, on which our ADSs are traded, and a foreign exchange that is regulated by a governmental authority in which the exchange is located and with respect to which certain other requirements are met. The Internal Revenue Service (IRS) has not yet identified specific foreign exchanges that are qualified for this purpose. Under current law, the mark-to-market election may be available to holders of ADSs because the ADSs will be listed on the NYSE, although there can be no assurance that the ADSs will be regularly traded for purposes of the mark-to-market election. However, even if a U.S. Holder makes a mark-to-market election with respect to our Shares or ADSs, a U.S. Holder will not be able to make a mark-to-market election with respect to any of our subsidiaries that are PFICs. U.S. Holders should consult their tax advisers regarding the availability and advisability of making a mark-to-market election in their particular circumstances. In particular, U.S. Holders should consider carefully the impact of a mark-to-market election with respect to their ADSs given that we may have subsidiary PFICs for which a mark-to-market election may not be available.

If a U.S. Holder is eligible and makes the mark-to-market election, the U.S. Holder will include each year, as ordinary income, the excess, if any, of the fair market value of the Shares or ADSs at the end of the taxable year over their adjusted basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of the Shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). If a U.S. Holder validly makes the election, the holder's basis in the Shares or ADSs will be adjusted to reflect any such income or loss amounts. Any gain recognized on the sale or other disposition of Shares or ADSs in a year when the Company is a PFIC will be treated as ordinary income and any loss will be treated as an ordinary loss (but only to the extent of the net amount of income

previously included as a result of the mark-to-market election).

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We do not intend to comply with the requirements necessary for a U.S. Holder to make a qualified electing fund election, which is sometimes available to shareholders of a PFIC.

Special rules apply to determine the foreign tax credit with respect to withholding taxes imposed on excess distributions on shares of a PFIC. These rules could limit the amount of the foreign tax credit that would otherwise have been available.

If a U.S. Holder owns Shares or ADSs during any year in which we are a PFIC, the U.S. Holder will generally be required to file IRS Form 8621 with its federal income tax return with respect to us and with respect to each of our subsidiaries that is a PFIC, subject to certain exceptions.

We urge U.S. Holders to consult their tax advisors concerning our status as a PFIC and the tax considerations relevant to an investment in a PFIC, including the availability and consequences of making the mark-to-market election discussed above.

### ***Backup Withholding and Information Reporting***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against such holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders who are individuals (and certain entities closely held by individuals) may be required to report information relating to their ownership of an interest in certain foreign financial assets, including stock of a non-U.S. person, generally on Form 8938, subject to exceptions (including an exception for financial assets held through a U.S. financial institution). U.S. Holders should consult their tax advisers regarding their reporting obligations with respect to the Shares or ADSs.

## **DOCUMENTS ON DISPLAY**

We are subject to the reporting requirements of the Act. In accordance with these requirements, we file annual reports on Form 20-F and furnish periodic reports on Form 6-K with the Commission.

These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's Public Reference Room at Room 1580, 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a website at <http://www.sec.gov> that contains reports and proxy information regarding issuers that file electronically with the Commission via EDGAR.

We are currently exempt from the rules under the Act that prescribe the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Act. We are not required under the Act to publish financial statements as frequently or as promptly as are U.S. companies subject to the Act. We will, however, continue to furnish our shareholders with annual reports containing audited financial statements and will issue press releases containing

unaudited interim financial information as well as such other reports as may from time to time be authorized by our board of directors or as may be otherwise required.



**Table of Contents****Item 11. Quantitative and Qualitative Disclosures about Market Risk****MARKET RISKS**

Our primary market risk exposures are interest rate risk, exchange rate risk and risk of market prices in stocks. We enter into derivative transactions to hedge interest rate risk and exchange rate risk. Our risk management for market risk exposure and derivative transactions are described under Item 5. Operating and Financial Review and Prospects Risk Management.

The following quantitative information about the market risk of our financial instruments does not include information about financial instruments to which the requirements under ASC 825 ( Financial Instruments ) do not apply, such as investment in direct financing leases, investment in operating leases, and insurance contracts. As a result, the following information does not present all the risks of our financial instruments. We omitted the disclosure of financial instruments for trading purposes because the amount is immaterial.

***Interest Rate Risk***

Many of our assets and liabilities are composed of floating and fixed rate assets and liabilities. Movements in market interest rates affect gains and losses in those assets and liabilities. Accordingly, we endeavor to reduce interest rate risk through techniques such as funding interest rate bearing assets through liabilities with similar interest rate characteristics, e.g., financing floating-rate assets with floating-rate liabilities and financing fixed-rate assets with fixed-rate liabilities.

We manage assets and liabilities through various methods including conducting gains and losses impact analysis and balance sheet fair value analysis when market interest rates fluctuate, constructing balance sheets for fixed rate assets and liabilities, and those for floating rate, testing interest rate sensitivities.

The table below of interest rate sensitivity for financial instruments summarizes installment loans, investment in securities (floating and fixed rate) and long- and short-term debt. These instruments are further classified under fixed or floating rates. For such items, the principal collection and repayment schedules and the weighted average interest rates for collected and repaid portions are disclosed. Concerning interest rate swaps, under derivative instruments, the estimated notional principal amount for each contractual period and the weighted average of swap rates are disclosed. The average interest rates of financial instruments as of March 31, 2018 were: 3.9% for installment loans, 2.1% for investment in securities (floating and fixed rate), 1.5% for long- and short-term debt and 0.2% for deposits. As of March 31, 2018, the average payment rate of interest rate swaps was 1.2% and the average receipt rate was 0.2%. The average interest rates of financial instruments as of March 31, 2017 were: 4.1% for installment loans, 2.2% for investment in securities (floating and fixed rate), 1.2% for long- and short-term debt and 0.2% for deposits. As of March 31, 2017, the average payment rate of interest rate swaps was 0.9% and the average receipt rate was 0.3%. As of March 31, 2018, there was no material change in the balance or in the average interest rate of financial instruments from March 31, 2017. The table below shows our interest rate risk exposure and the results of our interest rate sensitivity analysis.

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**INTEREST RATE SENSITIVITY**  
**NONTRADING FINANCIAL INSTRUMENTS**

	Expected Maturity Date Year ending March 31,						Total	March 31, 2018 Estimated Fair Value
	2019	2020	2021	2022	2023	Thereafter		
(Millions of yen)								
<b>Assets:</b>								
Installment loans (fixed rate)	¥ 251,418	¥ 129,382	¥ 98,776	¥ 77,324	¥ 55,733	¥ 359,174	¥ 971,807	¥ 965,421
Average interest rate	5.7%	7.3%	7.3%	7.0%	6.9%	4.6%	5.9%	
Installment loans (floating rate)	¥ 218,624	¥ 171,667	¥ 179,526	¥ 109,511	¥ 92,348	¥ 1,061,353	¥ 1,833,029	¥ 1,808,007
Average interest rate	3.2%	3.6%	4.2%	3.5%	3.9%	2.4%	2.9%	
Investment in securities (fixed rate)	¥ 72,087	¥ 61,157	¥ 68,059	¥ 33,028	¥ 35,975	¥ 707,280	¥ 977,586	¥ 1,011,520
Average interest rate	0.9%	0.7%	1.2%	1.4%	1.7%	2.1%	1.8%	
Investment in securities (floating rate)	¥ 6,769	¥ 4,441	¥ 6,424	¥ 2,780	¥ 7,962	¥ 60,071	¥ 88,447	¥ 91,183
Average interest rate	5.1%	5.5%	5.8%	5.0%	5.7%	5.5%	5.5%	
<b>Liabilities:</b>								
Short-term debt	¥ 306,754	¥ 0	¥ 0	¥ 0	¥ 0	¥ 0	¥ 306,754	¥ 306,754
Average interest rate	2.3%						2.3%	
Deposits	¥ 1,123,696	¥ 150,324	¥ 389,973	¥ 27,909	¥ 65,060	¥ 500	¥ 1,757,462	¥ 1,759,248
Average interest rate	0.2%	0.3%	0.3%	0.2%	0.3%	0.2%	0.2%	
Long-term debt (fixed rate)	¥ 309,069	¥ 220,413	¥ 297,342	¥ 269,662	¥ 221,493	¥ 509,087	¥ 1,827,066	¥ 1,815,361
Average interest rate	1.2%	1.5%	1.5%	1.6%	1.5%	1.6%	1.5%	
Long-term debt (floating rate)	¥ 342,992	¥ 282,610	¥ 205,811	¥ 194,658	¥ 263,759	¥ 709,608	¥ 1,999,438	¥ 2,015,168

Average interest rate	1.5%	1.7%	1.4%	1.7%	1.2%	1.3%	1.4%
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**NONTRADING DERIVATIVE FINANCIAL INSTRUMENTS**

	Expected Maturity Date Year ending March 31,						Total	March 31, 2018 Estimated Fair Value
	2019	2020	2021	2022	2023	Thereafter		
(Millions of yen)								
<b>Interest rate swaps:</b>								
Notional amount (floating to fixed)	¥ 67,725	¥ 32,547	¥ 8,431	¥ 12,982	¥ 27,331	¥ 147,886	¥ 296,902	¥ (4,596)
Average pay rate	0.7%	0.8%	2.4%	1.4%	1.6%	1.4%	1.2%	
Average receive rate	0.3%	0.5%	1.4%	0.8%	1.0%	(0.1%)	0.2%	
Notional amount (fixed to floating)	¥ 1,372	¥ 0	¥ 0	¥ 29	¥ 65	¥ 51	¥ 1,517	¥ (1)
Average pay rate	0.0%			7.8%	(0.3%)	2.6%	0.2%	
Average receive rate	2.2%			7.4%	0.5%	3.4%	2.2%	

The above table excludes purchased loans, which are exposed to interest rate risk, because it is difficult to estimate the timing and extent of collection of such loans. Purchased loans are deteriorated credit loans which we acquire at a discount and for which full collection of all contractually required payments from the debtors is unlikely. The total book value of our purchased loans as of March 31, 2018 was ¥18,933 million.

Long-term debt (floating rate) in the table above includes the amount of the ¥94,000 million subordinated syndicated loan (hybrid loan, whose maturity date is year 2076) conducted in fiscal 2017, of which ¥60,000 million and ¥34,000 million can be repaid after 5 years and 7 years, respectively.

We are also exposed to interest rate risks in our life insurance businesses, because revenues from life insurance related investment income fluctuates based on changes in market interest rates, while life insurance premiums and costs do not.

**Table of Contents*****Exchange Rate Risk***

We hold foreign currency-denominated assets and liabilities and deal in foreign currencies. It is our policy to match balances of foreign currency-denominated assets and liabilities as a means of hedging exchange rate risk. There are, however, cases where a certain part of our foreign currency-denominated investments are not hedged for such risk.

We have identified all positions including retained earnings accumulated in foreign currencies in our overseas subsidiaries, which is translated to Japanese yen upon consolidation, that are subject to exchange rate risk. ORIX shareholders' equity is subject to exchange rate risk arising from such translations. Other positions, such as potential losses in future earnings, are calculated using several hypothetical scenarios based on 10% changes in the relevant currencies. Based on these scenarios, exchange losses in future earnings were estimated to be ¥635 million and ¥570 million as of March 31, 2017 and 2018, respectively. The largest of such losses were estimated in scenarios where the euro appreciated 10% against the U.S. dollar from the rate in effect on March 31, 2017 and 2018.

***Risk of Market Prices in Stocks***

We have marketable stocks that are subject to price risk arising from changes in their market prices. Our shareholders' equity and net income bear risks due to changes in the market prices of these securities. To manage these risk of market price fluctuations, we assume a scenario of a 10% uniform downward movement in stock prices compared with stock prices as of March 31, 2017 and 2018, respectively, and under such circumstances estimate ¥9,303 million and ¥5,360 million decrease in the fair value of our equity securities as of March 31, 2017 and 2018.

**Item 12. Description of Securities Other than Equity Securities****FEES AND PAYMENTS RELATING TO OUR AMERICAN DEPOSITARY SHARES****SCHEDULE OF FEES AND CHARGES**

Citibank N.A., or the Depositary, serves as the depositary for our ADSs. As an ADS holder, you will be required to pay the following service fees to the Depositary:

<b>Service</b>	<b>Fee</b>
Issuance of ADSs upon deposit of Shares	Up to 5¢ per ADS issued
Cancellation of ADSs and delivery of deposited securities	Up to 5¢ per ADS canceled
Exercise of rights to purchase additional ADSs	Up to 5¢ per ADS issued
Distribution of cash proceeds upon sale of rights and other entitlements	Up to 2¢ per ADS held

As an ADS holder you will also be responsible to pay various fees and expenses incurred by the Depositary and various taxes and governmental charges such as:

Taxes, including applicable interest and penalties, and other governmental charges;

Fees for the transfer and registration of Shares charged by the registrar and transfer agent for the Shares in Japan (i.e., upon deposit and withdrawal of Shares);

Expenses incurred for converting foreign currency into U.S. dollars;

Expenses for cable, telex and fax transmissions and for delivery of securities;

Fees and expenses of the Depositary incurred in connection with compliance with exchange control regulations and regulatory requirements applicable to the Shares or ADSs; and

Fees and expenses of the Depositary in delivering deposited securities.

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We have agreed to pay some other charges and expenses of the depositary bank. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary bank. You will receive prior notice of these changes.

**PAYMENTS TO ORIX FROM THE DEPOSITARY**

The Depositary has agreed to reimburse us for certain expenses we incur in connection with our ADR program. These reimbursable expenses include investor relations expenses, and proxy voting and related expenses. In fiscal 2018, this amount was \$80,000.

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**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

In order to improve the convenience and liquidity of our securities on exchanges where our shares are listed, in accordance with Action Plan for Consolidating Trading Units issued in November 2007 by the securities exchanges in Japan, the Company implemented a 10-for-1 stock split of shares of its common stock on March 31, 2013, pursuant to which one hundred shares constitutes one unit as of April 1, 2013. The change resulted in no substantive change in trading unit price levels. As a result of the stock split, the ratio of ADSs to underlying shares changed from 0.5 underlying shares per one ADS to five underlying shares per one ADS. The change has not affected ADS unit price levels or other material ADS terms.

**Item 15. Controls and Procedures**

As of March 31, 2018, the ORIX Group, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the principal financial officer, performed an evaluation of the effectiveness of the ORIX Group's disclosure controls and procedures (as defined in Rule 13a-15 (e) under the Securities Exchange Act of 1934, as amended). The Company's management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature can provide only reasonable assurance regarding the achievement of management's control objectives. Based on this evaluation, the Company's Chief Executive Officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level for gathering, analyzing and disclosing the information the Company is required to disclose in the reports it files under the Act, within the time periods specified in the SEC's rules and forms. There has been no change in the ORIX Group's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Management's report on internal control over financial reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). The internal control over financial reporting process of the ORIX Group was designed by, or under the supervision of, the Company's Chief Executive Officer and principal financial officer and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the ORIX Group;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States, and that receipts and expenditures of the ORIX Group are being made only in accordance with authorizations of management and directors of the Company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the ORIX Group's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



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The Company's management assessed the effectiveness of our internal control over financial reporting as of March 31, 2018 by using the criteria set forth in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company's management concluded that our internal control over financial reporting was effective as of March 31, 2018.

The effectiveness of our internal control over financial reporting has been audited by KPMG AZSA LLC, an independent registered public accounting firm, who also audited our consolidated financial statements as of and for each of the years in the three-year period ended March 31, 2018, as stated in their attestation report which is included in Item 18 (page F-3).

**Item 16A. Audit Committee Financial Expert**

Our board of directors has determined that Eiko Tsujiyama is an audit committee financial expert, within the meaning of the current rules of the U.S. Securities and Exchange Commission. Eiko Tsujiyama is independent as required by Section 303A.06 of the New York Stock Exchange Listed Company Manual.

**Item 16B. Code of Ethics**

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Pursuant to our Code of Ethics, last amended in April 2014, officers of ORIX covered by ORIX's Code of Ethics are required to promptly bring to the attention of the Company's Executive Officer of the Group Compliance Department any information concerning any violations of the Code of Ethics.

**Item 16C. Principal Accountant Fees and Services**

**FEES PAID TO PRINCIPAL ACCOUNTANT**

**AUDIT FEES**

In fiscal 2017 and 2018, KPMG (including Japanese and overseas affiliates of KPMG AZSA LLC) billed us ¥2,443 million and ¥2,976 million, respectively, for direct audit fees.

**AUDIT-RELATED FEES**

In fiscal 2017 and 2018, KPMG billed us ¥137 million and ¥119 million, respectively, for audit-related services, including attestation, assurance and related services that are not reported under audit fees.

**TAX FEES**

In fiscal 2017 and 2018, KPMG billed us ¥161 million and ¥155 million, respectively, for tax-related services, including tax compliance and tax advice.

**AUDIT COMMITTEE'S PRE-APPROVAL POLICIES AND PROCEDURES**

In terms of audit services, every year the independent registered public accounting firm draws up its annual audit plan and annual budget, which is evaluated by ORIX's Accounting Department. Subsequently, pre-approval is obtained from the Audit Committee.

Non-audit services are generally not obtained from the independent registered public accounting firm or its affiliates. In situations where ORIX must engage the non-audit services of the independent registered public accounting firm, preapproval is obtained from the Audit Committee on a case-by-case basis only after the reason has been specified.

**Table of Contents****Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

<b>Year ended March 31, 2018</b>	<b>(a) Total number of Shares Purchased</b>	<b>(b) Average Price Paid per Share</b>	<b>(c) Total number of Shares Purchased as Part of Publicly Announced Plans or Programs*<sup>1,2</sup></b>	<b>(d) Maximum Number (or Approximate Yen Value) of Shares that May Yet be Purchased Under the Plans or Programs*<sup>1,2</sup></b>
April 2017	23,448,540	¥ 1,668	23,448,500	0
May 2017	0	0	0	0
June 2017	90	1,761	0	0
July 2017	80	1,773	0	0
August 2017	80	1,803	0	0
September 2017	61	1,748	0	0
October 2017	111	1,852	0	0
November 2017	60	1,994	0	0
December 2017	110	1,889	0	0
January 2018	60	2,072	0	0
February 2018	20	2,106	0	0
March 2018	20	1,942	0	0
<b>Total</b>	<b>23,449,232</b>	<b>¥ 1,668</b>	<b>23,448,500</b>	<b>¥ 0</b>

\*<sup>1</sup> The Company resolved the share repurchase as follows at a meeting of the Board of Directors held on October 26, 2016 and February 16, 2017.

Classification of shares to be repurchased: Common shares

Total number of shares: Up to 39,000,000 shares (approx. 2.97% of the total outstanding shares (excluding treasury shares))

Total value of shares to be repurchased: Up to 50 billion yen

Repurchase period: From October 27, 2016 to May 15, 2017

Method of share repurchase: Open market purchases on the Tokyo Stock Exchange

\*2 The share repurchase based on the above resolution at the Board of Directors meeting was completed. The details of share repurchasing are as follows.

Classification of shares acquired: Common shares

Total number of shares acquired: 23,448,500 shares

Total value of shares acquired: 39,108,901,400 yen

Acquisition period: From April 1, 2017 to April 21, 2017

Acquisition method: Open market purchases on the Tokyo Stock Exchange

**Item 16F. Change in Registrant's Certifying Accountant.**

Not applicable.

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**Item 16G. Corporate Governance**

Our ADSs have been listed on the New York Stock Exchange, or NYSE, since 1998. As an NYSE-listed company, we are required to comply with certain corporate governance standards under Section 303A of the NYSE Listed Company Manual. However, as a foreign private issuer, we are permitted to follow home country practice in lieu of certain provisions of Section 303A.

Our corporate governance practices differ in certain significant respects from those that U.S. companies must adopt in order to maintain a NYSE listing and, in accordance with Section 303A.11 of the NYSE's Listed Company Manual, we provide a brief, general summary of such differences.

The composition of our board of directors and its committees differs significantly in terms of independence from the composition requirements for boards and committees that U.S. companies must satisfy in order to maintain a NYSE listing. We are not required to meet the NYSE's independence requirements for individuals on our board of directors or our Nominating, Audit, and Compensation Committees. Under Japanese law, a majority of the membership on our committees must be outside directors—a Japanese law concept that shares similarities with the U.S. concept of independent director. However, we are not required to include on our board of directors a majority of outside directors, nor are we required to compose our committees exclusively from outside directors. Six of our 12 directors are considered outside directors. We have adopted a written charter for our Compensation Committee that addresses committee member appointment and removal, committee structure and operations, and reporting to the board. However, our Compensation Committee has not retained, or obtained the advice of, a compensation consultant, independent legal counsel or other adviser.

Under the Companies Act, an outside director is a director (i) who is not an executive director, executive officer (*shikko-yaku*), manager or any other kind of employee (collectively called Executive Directors and Employees) of the Company or its subsidiaries and who has not been the Executive Directors and Employees in the past 10 years of the Company or its subsidiaries; (ii) who has not been the Executive Directors and Employees of the Company or its subsidiaries for the past 10 years from the assumptions of any of the position of director, accounting advisor, or auditor; (iii) who is not a person with a controlling stake in the management of the Company, such as a holder of 50 percent or more of the Company's shares, etc., or has not been the Executive Directors and Employees of the parent company of the Company; (iv) who has not been the Executive Directors and Employees of any other company with same parent company; and (v) who has not been the spouse or the kin (within the second degree) of any director, manager or any other kind of important employee of the Company, or a person with a controlling stake in the management of the Company, such as a holder of 50 percent or more of the Company's shares etc.

In addition to differences in composition requirements for our board of directors and its committees, we are not required to:

make publicly available one or more documents that summarize all aspects of our corporate governance guidelines or prepare a written code that states the objectives, responsibilities, and performance evaluation criteria of our Nominating, Audit and Compensation Committees in a manner that satisfies the NYSE's requirements;

adopt a code of business conduct and ethics for our directors, officers, and employees that addresses fully the topics necessary to satisfy the NYSE's requirements;

hold regularly scheduled executive sessions for our outside directors;

obtain shareholder approval for all equity compensation plans for employees, directors or executive officers of ORIX or for material revisions to any such plans;

provide the compensation committee with authority to obtain or retain the advice of a compensation adviser only after taking into consideration all factors relevant to determining the adviser's independence from management.

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**PART III**

**Item 17. Financial Statements**

ORIX has elected to provide financial statements and related information pursuant to Item 18.

**Item 18. Financial Statements**

See pages F-1 through F-139.

The following consolidated financial statements of ORIX listed below and the report thereon by its independent registered public accounting firm are filed as part of this Form 20-F:

- (a) Consolidated Balance Sheets as of March 31, 2017 and 2018 (page F-4 to F-5);
- (b) Consolidated Statements of Income for the years ended March 31, 2016, 2017 and 2018 (page F-6 to F-7);
- (c) Consolidated Statements of Comprehensive Income for the years ended March 31, 2016, 2017 and 2018 (page F-8);
- (d) Consolidated Statements of Changes in Equity for the years ended March 31, 2016, 2017 and 2018 (page F-9 to F-10);
- (e) Consolidated Statements of Cash Flows for the years ended March 31, 2016, 2017 and 2018 (page F-11);
- (f) Notes to Consolidated Financial Statements (page F-12 to F-138);
- (g) Schedule II. Valuation and Qualifying Accounts and Reserves (page F-139).

**Table of Contents****Item 19. Exhibits**

We have filed the following documents as exhibits to this document.

<b>Exhibit Number</b>	<b>Description</b>
Exhibit 1.1	<u>Articles of Incorporation of ORIX Corporation, as amended on June 26, 2018.</u>
Exhibit 1.2	<u>Regulations of the Board of Directors of ORIX Corporation, as amended on July 21, 2017.</u>
Exhibit 1.3	<u>Share Handling Regulations of ORIX Corporation, as amended on May 27, 2016.</u>
Exhibit 7.1	<u>A statement explaining in reasonable detail how ratios in the annual report were calculated.</u>
Exhibit 8.1	<u>List of subsidiaries.</u>
Exhibit 11.1	<u>Code of Ethics, as amended on April 18, 2014 (Incorporated by reference from the annual report on Form 20-F filed on June 26, 2014, commission file number 001-14856).</u>
Exhibit 12.1	<u>Certifications required by Rule 13a-14 (a) (17 CFR 240.13a-14 (a)) or Rule 15d-14 (a) (17 CFR 240.15d 14(a)).</u>
Exhibit 13.1	<u>Certifications required by Rule 13a-14 (b) (17 CFR 240.13a-14 (b)) or Rule 15d-14 (b) (17 CFR 240.15d 14 (b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).</u>
Exhibit 15.1	<u>Consent of independent registered public accounting firm</u>
Exhibit 101	Instance Document.
Exhibit 101	Schema Document.
Exhibit 101	Calculation Linkbase Document.
Exhibit 101	Definition Linkbase Document.
Exhibit 101	Labels Linkbase Document.
Exhibit 101	Presentation Linkbase Document.

We have not included as exhibits certain instruments with relation to our long-term debt or the long-term debt of our subsidiaries. The total amount of securities of us or our subsidiaries authorized under any such instrument does not exceed 10% of our consolidated total assets. We hereby agree to furnish to the SEC, upon its request, a copy of any and all such instruments.



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**SIGNATURES**

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

**ORIX KABUSHIKI KAISHA**

By: /s/ HITOMARO YANO  
Name: Hitomaro Yano  
Title: Attorney-in-Fact

Executive Officer

Date: June 28, 2018

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of Directors

ORIX Corporation

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of ORIX Corporation (a Japanese corporation) and its subsidiaries (the Company) as of March 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended March 31, 2018, and the related notes and financial statement schedule II (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated June 28, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

**KPMG AZSA LLC**

We have served as the Company's auditor since 1985.

Tokyo, Japan

June 28, 2018



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of Directors

ORIX Corporation

Opinion on Internal Control Over Financial Reporting

We have audited ORIX Corporation (a Japanese corporation) and subsidiaries (the Company) internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of March 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended March 31, 2018, and the related notes and financial statement schedule II (collectively, the consolidated financial statements), and our report dated June 28, 2018 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance

with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

KPMG AZSA LLC

Tokyo, Japan

June 28, 2018

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**Table of Contents****CONSOLIDATED BALANCE SHEETS****AS OF MARCH 31, 2017 AND 2018****ORIX Corporation and Subsidiaries**

	<b>Millions of yen</b>	
	<b>2017</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	¥ 1,039,870	¥ 1,321,241
Restricted Cash	93,342	83,876
Investment in Direct Financing Leases	1,204,024	1,194,888
Installment Loans	2,815,706	2,823,769
The amounts which are measured at fair value by electing the fair value option are as follows:		
March 31, 2017	¥ 19,232	million
March 31, 2018	¥ 17,260	million
Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses	(59,227)	(54,672)
Investment in Operating Leases	1,313,164	1,344,926
Investment in Securities	2,026,512	1,729,455
The amounts which are measured at fair value by electing the fair value option are as follows:		
March 31, 2017	¥ 24,894	million
March 31, 2018	¥ 37,631	million
Property under Facility Operations	398,936	434,786
Investment in Affiliates	524,234	591,363
Trade Notes, Accounts and Other Receivable	283,427	294,773
Inventories	117,863	111,001
Office Facilities	110,781	112,962
Other Assets	1,363,263	1,437,614
The amounts which are measured at fair value by electing the fair value option are as follows:		
March 31, 2017	¥ 22,116	million
March 31, 2018	¥ 15,008	million
Total Assets	¥ 11,231,895	¥ 11,425,982

Note : The assets of consolidated variable interest entities (VIEs) that can be used only to settle obligations of those VIEs are below:

**Millions of yen**  
**2017**                      **2018**

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Cash and Cash Equivalents	¥ 5,674	¥ 4,553
Investment in Direct Financing Leases (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses)	90,822	43,942
Installment Loans (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses)	186,818	36,991
Investment in Operating Leases	151,686	124,998
Property under Facility Operations	109,656	108,115
Investment in Affiliates	53,046	52,450
Other	105,591	74,645
	¥ 703,293	¥ 445,694

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**Table of Contents****CONSOLIDATED BALANCE SHEETS (Continued)****AS OF MARCH 31, 2017 AND 2018****ORIX Corporation and Subsidiaries**

	<b>Millions of yen</b>	
	<b>2017</b>	<b>2018</b>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Short-term Debt	¥ 283,467	¥ 306,754
Deposits	1,614,608	1,757,462
Trade Notes, Accounts and Other Payable	251,800	262,301
Policy Liabilities and Policy Account Balances	1,564,758	1,511,246
The amounts which are measured at fair value by electing the fair value option are as follows:		
March 31, 2017	¥605,520 million	
March 31, 2018	¥444,010 million	
Income Taxes:		
Current	93,884	18,798
Deferred	351,828	348,149
Long-term Debt	3,854,984	3,826,504
Other Liabilities	562,393	588,474
<b>Total Liabilities</b>	<b>8,577,722</b>	<b>8,619,688</b>
Redeemable Noncontrolling Interests	6,548	7,420
Commitments and Contingent Liabilities		
Equity:		
Common stock:	220,524	220,961
Authorized: 2,590,000,000 shares		
Issued:		
March 31, 2017 1,324,107,328 shares		
March 31, 2018 1,324,495,728 shares		
Additional Paid-in Capital	268,138	267,291
Retained Earnings	2,077,474	2,315,283
Accumulated Other Comprehensive Income (Loss)	(21,270)	(45,566)
Treasury Stock, at Cost:	(37,168)	(75,545)
March 31, 2017 21,520,267 shares		
March 31, 2018 44,494,856 shares		
ORIX Corporation Shareholders Equity	2,507,698	2,682,424
Noncontrolling Interests	139,927	116,450
<b>Total Equity</b>	<b>2,647,625</b>	<b>2,798,874</b>

Total Liabilities and Equity	¥ 11,231,895	¥ 11,425,982
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Notes 1: The Company's shares held through the Board Incentive Plan Trust (2,126,076 shares as of March 31, 2017 and 1,651,443 shares as of March 31, 2018) are included in the number of treasury stock shares as of March 31, 2017 and 2018.

2: The liabilities of consolidated VIEs for which creditors (or beneficial interest holders) do not have recourse to the general credit of the Company and its subsidiaries are below:

	<b>Millions of yen</b>	
	<b>2017</b>	<b>2018</b>
Trade Notes, Accounts and Other Payable	¥ 2,998	¥ 1,102
Long-Term Debt	438,473	263,973
Other	10,391	8,047
	¥ 451,862	¥ 273,122

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

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**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED MARCH 31, 2016, 2017 AND 2018**

**ORIX Corporation and Subsidiaries**

	Millions of yen		
	2016	2017	2018
<b>Revenues:</b>			
Finance revenues	¥ 200,889	¥ 200,584	¥ 214,104
Gains on investment securities and dividends	35,786	30,328	43,302
Operating leases	373,910	398,655	379,665
Life insurance premiums and related investment income	189,421	295,940	351,590
Sales of goods and real estate	834,010	1,015,249	1,079,052
Services income	735,186	737,903	795,058
<b>Total revenues</b>	<b>2,369,202</b>	<b>2,678,659</b>	<b>2,862,771</b>
<b>Expenses:</b>			
Interest expense	72,821	72,910	76,815
Costs of operating leases	245,069	243,537	252,327
Life insurance costs	121,282	200,158	255,070
Costs of goods and real estate sold	748,259	928,794	1,003,509
Services expense	445,387	451,277	482,796
Other (income) and expense, net	(3,729)	(4,396)	429
Selling, general and administrative expenses	422,692	418,746	431,594
Provision for doubtful receivables and probable loan losses	11,717	22,667	17,265
Write-downs of long-lived assets	13,448	9,134	5,525
Write-downs of securities	4,515	6,608	1,246
<b>Total expenses</b>	<b>2,081,461</b>	<b>2,349,435</b>	<b>2,526,576</b>
<b>Operating Income</b>	<b>287,741</b>	<b>329,224</b>	<b>336,195</b>
Equity in Net Income of Affiliates	45,694	26,520	50,103
Gains on Sales of Subsidiaries and Affiliates and Liquidation			
Losses, net	57,867	63,419	49,203
Bargain Purchase Gain	0	5,802	0
<b>Income before Income Taxes</b>	<b>391,302</b>	<b>424,965</b>	<b>435,501</b>
Provision for Income Taxes	120,312	144,039	113,912
<b>Net Income</b>	<b>270,990</b>	<b>280,926</b>	<b>321,589</b>
Net Income Attributable to the Noncontrolling Interests	10,002	7,255	8,002
	819	432	452

Net Income Attributable to the Redeemable Noncontrolling  
Interests

Net Income Attributable to ORIX Corporation Shareholders	¥ 260,169	¥ 273,239	¥ 313,135
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**CONSOLIDATED STATEMENTS OF INCOME (Continued)**  
**FOR THE YEARS ENDED MARCH 31, 2016, 2017 AND 2018**

**ORIX Corporation and Subsidiaries**

	<b>2016</b>	<b>Yen 2017</b>	<b>2018</b>
Amounts per Share of Common Stock for Income Attributable to ORIX Corporation Shareholders:			
Basic:			
Net Income Attributable to ORIX Corporation Shareholders	¥ 198.73	¥ 208.88	¥ 244.40
Diluted:			
Net Income Attributable to ORIX Corporation Shareholders	¥ 198.52	¥ 208.68	¥ 244.15
Cash Dividends	58.00	46.75	56.25

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

Table of Contents**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****FOR THE YEARS ENDED MARCH 31, 2016, 2017 AND 2018****ORIX Corporation and Subsidiaries**

	Millions of yen		
	2016	2017	2018
Net Income	¥ 270,990	¥ 280,926	¥ 321,589
Other comprehensive income (loss), net of tax:			
Net change of unrealized gains (losses) on investment in securities	(3,121)	(14,926)	(22,834)
Net change of defined benefit pension plans	(4,123)	7,670	(2,962)
Net change of foreign currency translation adjustments	(26,957)	(5,968)	(1,955)
Net change of unrealized gains (losses) on derivative instruments	(4,063)	326	779
Total other comprehensive income (loss)	(38,264)	(12,898)	(26,972)
Comprehensive Income	232,726	268,028	294,617
Comprehensive Income Attributable to the Noncontrolling Interests	7,414	4,276	6,433
Comprehensive Income Attributable to the Redeemable Noncontrolling Interests	1,738	374	36
Comprehensive Income Attributable to ORIX Corporation Shareholders	¥ 223,574	¥ 263,378	¥ 288,148

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

Table of Contents**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****FOR THE YEARS ENDED MARCH 31, 2016, 2017 AND 2018****ORIX Corporation and Subsidiaries**

	Millions of yen							
	ORIX Corporation Shareholders' Equity				Total ORIX Corporation			
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Shareholders' Equity	Noncontrolling Interests	Total Equity
<b>Balance at March 31, 2015</b>	¥ 220,056	¥ 255,595	¥ 1,672,585	¥ 30,373	¥ (26,411)	¥ 2,152,198	¥ 165,873	¥ 2,318,071
Contribution to subsidiaries						0	6,801	6,801
Transaction with noncontrolling interests		1,918				1,918	(10,519)	(8,601)
Comprehensive income, net of tax:								
Net income			260,169			260,169	10,002	270,171
Other comprehensive income(loss)								
Net change of unrealized gains (losses) on investment in securities				(3,145)		(3,145)	24	(3,121)
Net change of defined benefit pension plans				(4,436)		(4,436)	313	(4,123)
Net change of foreign currency translation adjustments				(25,197)		(25,197)	(2,679)	(27,876)
Net change of unrealized gains (losses)				(3,817)		(3,817)	(246)	(4,063)

on derivative  
instruments

Total other comprehensive income(loss)				(36,595)	(2,588)	(39,183)
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Total comprehensive income				223,574	7,414	230,988
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Cash dividends		(76,034)		(76,034)	(7,181)	(83,215)
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Exercise of stock options	413	409		822	0	822
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Acquisition of treasury stock			(2)	(2)	0	(2)
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Disposal of treasury stock		(426)	(53)	727	248	0	248
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Adjustment of redeemable noncontrolling interests to redemption value			7,557	7,557	0	7,557
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Other, net	133	17		150	0	150
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<b>Balance at March 31, 2016</b>	¥ 220,469	¥ 257,629	¥ 1,864,241	¥ (6,222)	¥ (25,686)	¥ 2,310,431	¥ 162,388	¥ 2,472,819
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Contribution to subsidiaries				0	20,811	20,811
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Transaction with noncontrolling interests		10,516	(5,187)	5,329	(42,421)	(37,092)
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Comprehensive income, net of tax:						
Net income		273,239		273,239	7,255	280,494

Other comprehensive income (loss)						
Net change of unrealized gains (losses) on investment in securities			(14,918)	(14,918)	(8)	(14,926)

Net change of defined benefit pension plans		7,508		7,508	162	7,670
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Net change of foreign currency translation adjustments			(2,725)		(2,725)	(3,185)	(5,910)	
Net change of unrealized gains (losses) on derivative instruments			274		274	52	326	
Total other comprehensive income (loss)					(9,861)	(2,979)	(12,840)	
Total comprehensive income					263,378	4,276	267,654	
Cash dividends			(61,299)		(61,299)	(5,127)	(66,426)	
Exercise of stock options	55	26			81	0	81	
Acquisition of treasury stock			(12,128)		(12,128)	0	(12,128)	
Disposal of treasury stock		(409)	646		237	0	237	
Adjustment of redeemable noncontrolling interests to redemption value			1,293		1,293	0	1,293	
Other, net		376			376	0	376	
<b>Balance at March 31, 2017</b>	¥ 220,524	¥ 268,138	¥ 2,077,474	¥ (21,270)	¥ (37,168)	¥ 2,507,698	¥ 139,927	¥ 2,647,625

Table of Contents**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)****FOR THE YEARS ENDED MARCH 31, 2016, 2017 AND 2018****ORIX Corporation and Subsidiaries**

Millions of yen

**ORIX Corporation Shareholders' Equity**

	Additional		Accumulated		Total ORIX Corporation		Total	
	Common	Paid-in	Retained	Other	Treasury	Shareholder	Noncontrolling	Equity
	Stock	Capital	Earnings	Income	Stock	Equity	Interests	Equity
				(Loss)				
<b>Balance at March 31, 2017</b>	¥ 220,524	¥ 268,138	¥ 2,077,474	¥ (21,270)	¥ (37,168)	¥ 2,507,698	¥ 139,927	¥ 2,647,625
Contribution to subsidiaries						0	13,830	13,830
Transaction with noncontrolling interests		(972)		(1)		(973)	(35,522)	(36,495)
Comprehensive income, net of tax:								
Net income			313,135			313,135	8,002	321,137
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities				(22,746)		(22,746)	(88)	(22,834)
Net change of defined benefit pension plans				(2,984)		(2,984)	22	(2,962)
Net change of foreign currency translation adjustments				(2)		(2)	(1,537)	(1,539)
Net change of unrealized gains (losses) on derivative instruments				745		745	34	779
Total other comprehensive income (loss)						(24,987)	(1,569)	(26,556)
Total comprehensive income						288,148	6,433	294,581
Cash dividends			(72,757)			(72,757)	(8,218)	(80,975)
Exercise of stock options	437	219				656	0	656
Acquisition of treasury stock					(39,110)	(39,110)	0	(39,110)
Disposal of treasury stock		(476)			733	257	0	257

Adjustment of redeemable noncontrolling interests to redemption value		(1,876)		(1,876)	0	(1,876)		
Reclassification of change in accounting standards		(692)	692	0	0	0		
Other, net	382	(1)		381	0	381		
<b>Balance at March 31, 2018</b>	¥ 220,961	¥ 267,291	¥ 2,315,283	¥ (45,566)	¥ (75,545)	¥ 2,682,424	¥ 116,450	¥ 2,798,874

Notes 1: Changes in the redeemable noncontrolling interests are not included in this table. For further information, see Note 18 Redeemable Noncontrolling Interests.

2: Reclassification of change in accounting standards represents the amounts reclassified for the early adoption of the Accounting Standards Update 2018-02 ( Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ASC 220 ( Income Statement Reporting Comprehensive Income )).

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

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED MARCH 31, 2016, 2017 AND 2018**

**ORIX Corporation and Subsidiaries**

	Millions of yen		
	2016	2017	2018
<b>Cash Flows from Operating Activities:</b>			
Net income	¥ 270,990	¥ 280,926	¥ 321,589
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	244,853	253,677	279,923
Provision for doubtful receivables and probable loan losses	11,717	22,667	17,265
Equity in net income of affiliates (excluding interest on loans)	(44,333)	(24,549)	(46,587)
Gains on sales of subsidiaries and affiliates and liquidation losses, net	(57,867)	(63,419)	(49,203)
Bargain purchase gain	0	(5,802)	0
Gains on sales of available-for-sale securities	(32,126)	(30,701)	(30,716)
Gains on sales of operating lease assets	(38,340)	(69,265)	(35,291)
Write-downs of long-lived assets	13,448	9,134	5,525
Write-downs of securities	4,515	6,608	1,246
Deferred tax provision	42,528	25,318	5,588
Decrease in restricted cash	9,009	155	450
Decrease in trading securities	461,298	159,809	144,367
Decrease (Increase) in inventories	20,935	(5,318)	10,609
Decrease (Increase) in trade notes, accounts and other receivable	(8,224)	8,362	(13,984)
Increase (Decrease) in trade notes, accounts and other payable	(41,004)	(6,660)	17,831
Decrease in policy liabilities and policy account balances	(405,014)	(103,878)	(53,512)
Income taxes payable, net	47,065	67,904	(74,241)
Other, net	11,112	58,987	45,765
Net cash provided by operating activities	510,562	583,955	546,624
<b>Cash Flows from Investing Activities:</b>			
Purchases of lease equipment	(991,154)	(894,300)	(971,163)
Principal payments received under direct financing leases	515,053	483,627	470,870
Installment loans made to customers	(1,101,807)	(1,309,056)	(1,396,724)
Principal collected on installment loans	948,057	1,063,339	1,184,298
Proceeds from sales of operating lease assets	239,911	321,328	285,954
Investment in affiliates, net	(70,569)	(51,529)	(110,547)
Proceeds from sales of investment in affiliates	20,991	97,453	74,742
Purchases of available-for-sale securities	(864,874)	(466,314)	(399,362)
Proceeds from sales of available-for-sale securities	464,232	549,865	456,270
Proceeds from redemption of available-for-sale securities	381,099	105,255	97,565
Purchases of held-to-maturity securities	(538)	(306)	0

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Purchases of other securities	(32,818)	(22,737)	(40,021)
Proceeds from sales of other securities	48,594	31,829	43,959
Purchases of property under facility operations	(91,492)	(95,601)	(80,095)
Acquisitions of subsidiaries, net of cash acquired	(47,324)	(79,405)	(66,418)
Sales of subsidiaries, net of cash disposed	39,437	55,530	57,205
Other, net	(9,327)	(26,586)	(18,111)
<b>Net cash used in investing activities</b>	<b>(552,529)</b>	<b>(237,608)</b>	<b>(411,578)</b>
<b>Cash Flows from Financing Activities:</b>			
Net increase (decrease) in debt with maturities of three months or less	(4,707)	793	50,900
Proceeds from debt with maturities longer than three months	1,376,125	1,319,523	1,488,259
Repayment of debt with maturities longer than three months	(1,470,325)	(1,456,366)	(1,396,531)
Net increase in deposits due to customers	111,220	216,118	143,318
Cash dividends paid to ORIX Corporation shareholders	(76,034)	(61,299)	(72,757)
Acquisition of treasury stock	(2)	(12,128)	(39,110)
Contribution from noncontrolling interests	6,117	5,599	4,740
Purchases of shares of subsidiaries from noncontrolling interests	(4,764)	(25,840)	(11,299)
Cash dividends paid to redeemable noncontrolling interests	(11,272)	0	(1,040)
Net increase (decrease) in call money	36,500	(14,500)	(18,000)
Other, net	(10,859)	(5,359)	(4,898)
<b>Net cash provided by (used in) financing activities</b>	<b>(48,001)</b>	<b>(33,459)</b>	<b>143,582</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>(7,130)</b>	<b>(3,438)</b>	<b>2,743</b>
<b>Net increase (decrease) in Cash and Cash Equivalents</b>	<b>(97,098)</b>	<b>309,450</b>	<b>281,371</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>827,518</b>	<b>730,420</b>	<b>1,039,870</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>¥ 730,420</b>	<b>¥ 1,039,870</b>	<b>¥ 1,321,241</b>

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**ORIX Corporation and Subsidiaries**

**1. Significant Accounting and Reporting Policies**

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

**(a) Basis of presenting financial statements**

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

The accompanying consolidated financial statements have been prepared in conformity with U.S. GAAP and, therefore, reflect certain adjustments to the books and records of the Company and its subsidiaries. The principal adjustments relate to initial direct costs to originate leases and loans, use of a straight-line basis of depreciation for operating lease assets, deferral of life insurance policy acquisition costs, calculation of insurance policy liabilities, accounting for goodwill and other intangible assets in business combinations, accounting for contingent consideration in business combinations, accounting for pension plans, accounting for sales of the parent's ownership interest in subsidiaries, accounting for securitization of financial assets, accounting for fair value option and reflection of the income tax effect on such adjustments.

**(b) Principles of consolidation**

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Investments in affiliates, where the Company has the ability to exercise significant influence by way of 20%–50% ownership or other means, are accounted for by using the equity method. Where the Company holds majority voting interests but noncontrolling shareholders have substantive participating rights to decisions that occur as part of the ordinary course of their business, the equity method is applied. In addition, the consolidated financial statements include variable interest entities to which the Company and its subsidiaries are primary beneficiaries.

A lag period of up to three months is used on a consistent basis for recognizing the results of certain subsidiaries and affiliates.

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

**(c) Use of estimates**

The preparation of 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 ten areas where it believes assumptions and estimates are particularly critical to the financial statements. The Company makes estimates and assumptions to the selection of valuation techniques and determination of assumptions used in fair value measurements, the determination and periodic reassessment of the unguaranteed residual value for direct financing leases and operating leases, the determination and reassessment of insurance policy liabilities and deferred policy acquisition costs, the

determination of the allowance for doubtful receivables on direct financing leases and probable loan losses, the recognition and measurement of impairment of long-lived assets, the recognition and measurement of impairment of investment in securities, the determination of the valuation

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

allowance for deferred tax assets and the evaluation of tax positions, the assessment and measurement of effectiveness in hedging relationship using derivative financial instruments, the determination of benefit obligation and net periodic pension cost and the recognition and measurement of impairment of goodwill and intangible assets that have indefinite useful lives.

**(d) Foreign currencies translation**

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

The financial statements of 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 other comprehensive income (loss) arise from the translation of foreign currency financial statements into Japanese yen.

**(e) Revenue recognition**

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 transaction price is fixed or determinable and collectability 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.

***Finance Revenues*** Finance revenues mainly include revenues for direct financing leases and installment loans. The policies applied to direct financing leases and installment loans are described hereinafter.

**(1) Revenues from direct financing leases**

Direct financing leases consist of full-payout leases for various equipment types, including office equipment, industrial machinery and transportation equipment. 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. 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 by using the interest method. The estimated unguaranteed residual value represents estimated proceeds from the disposition of equipment at the time the lease is terminated. The estimated unguaranteed residual value is based on market value of used equipment, estimates of when and how much equipment will become obsolete, and actual recovery being experienced for similar used equipment. Initial direct costs are being deferred and amortized as a yield adjustment over the life of the related lease by using interest method. The unamortized balance of initial direct costs is reflected as a component of investment in



direct financing leases.

**(2) Revenues from installment loans**

Interest income on installment loans is recognized on an accrual basis. Certain direct loan origination costs, net of origination fees, are being deferred and amortized over the contractual term of the loan as an adjustment of

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

the related loans yield using the interest method. Interest payments received on impaired loans other than purchased 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. For purchased loans, although the acquired assets may remain loans in legal form, collections on these loans often do not reflect the normal historical experience of collecting delinquent accounts, and the need to tailor individual collateral-realization strategies often makes it difficult to reliably estimate the amount, timing, or nature of collections. Accordingly, the Company and its subsidiaries use the cost recovery method of income recognition for such purchased loans regardless of whether impairment is recognized or not.

**(3) Non-accrual policy**

In common with all classes, past-due financing receivables are receivables for which principal or interest is past-due 30 days or more. Loans whose terms have been modified are not classified as past-due financing receivables if the principals and interests are not past-due 30 days or more in accordance with the modified terms. The Company and its subsidiaries suspend accruing revenues on past-due installment loans and direct financing leases when principal or interest is past-due 90 days or more, or earlier, if management determines that their collections are doubtful based on factors such as individual debtors' creditworthiness, historical loss experience, current delinquencies and delinquency trends. Accrued but uncollected interest is reclassified to investment in direct financing leases or installment loans in the accompanying consolidated balance sheets and becomes subject to the allowance for doubtful receivables and probable loan loss process. Cash repayments received on non-accrual loans are applied first against past due interest and then any surpluses are applied to principal in view of the conditions of the contract and obligors. The Company and its subsidiaries return non-accrual loans and lease receivables to accrual status when it becomes probable that the Company and its subsidiaries will be able to collect all amounts due according to the contractual terms of these loans and receivables, as evidenced by continual payments from the debtors. The period of such continual payments before returning to accrual status varies depending on factors that we consider are relevant in assessing the debtors' creditworthiness, such as the debtors' business characteristics and financial conditions as well as relevant economic conditions and trends.

***Gains on investment securities and dividends*** Gains on investment securities are recorded on a trade date basis. Dividends are recorded when right to receive dividends is established.

***Operating leases*** Revenues from operating leases are recognized on a straight-line basis over the contract terms. Investment in operating leases is recorded at cost less accumulated depreciation and is depreciated over their estimated useful lives mainly on a straight-line basis. The estimated average useful lives of principal operating lease assets classified as transportation equipment is 10 years, measuring and information-related equipment is 4 years, real estate (other than land) is 30 years and other is 7 years. Depreciation expenses are included in costs of operating leases. Gains or losses arising from dispositions of operating lease assets are included in operating lease revenues.

Estimates of residual values are based on market values of used equipment, estimates of when and the extent to which equipment will become obsolete and actual recovery being experienced for similar used equipment.

***Sales of goods and real estate***

**(1) Sales of goods**

The Company and its subsidiaries sell to our customers various types of goods, including precious metals and jewels. Revenues from such sales of goods are recognized when persuasive evidence of an arrangement

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exists, delivery has occurred, and collectability is reasonably assured. Delivery is considered to have occurred when the customer has taken title to the goods and assumed the risks and rewards of ownership. Revenues are recognized net of estimated sales returns and incentives.

**(2) 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.

**Services income** Revenues are recognized when persuasive evidence of an arrangement exists, the service has been rendered to the customer, the transaction price is fixed or determinable and collectability is reasonably assured. The policies applied to asset management, servicing and automobile maintenance services are described hereinafter.

**(1) Revenues from asset management and servicing**

The Company and its subsidiaries provide to our customers investment management services for investments in financial assets, and asset management as well as maintenance and administrative services for investments in real estate properties. The Company and its subsidiaries also perform servicing on behalf of our customers. The Company and its subsidiaries receive fees for those services from our customers.

Revenues from asset management and servicing primarily include management fees, servicing fees, and performance fees. Management and servicing fees are recognized when transactions occur or services are rendered and the amounts are fixed or determinable and collectability of which is reasonably assured. Management fees are calculated based on the predetermined percentages of the market value of the assets under management or net assets of the investment funds in accordance with contracts. Certain subsidiaries recognize revenues from performance fees when earned based on the performance of the asset under management while other subsidiaries recognize revenues from performance fees on an accrual basis over the period in which services are performed. Performance fees are calculated based on the predetermined percentages on the performance of the assets under management in accordance with the contracts.

**(2) Revenues from automobile maintenance services**

The Company and its subsidiaries provide automobile maintenance services 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 and 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 record revenues net of third-party services costs. Revenues from automobile maintenance services are recognized over the contract period in proportion to the estimated service costs to be incurred.

**(f) Insurance and reinsurance transactions**

Premium income from life insurance policies, net of premiums on reinsurance ceded, is recognized as earned premiums when due.

Life insurance benefits are recorded as expenses when they are incurred. Policy liabilities and policy account balances for future policy benefits are measured using the net level premium method, based on actuarial

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

estimates of the amount of future policyholder benefits. The policies are characterized as long-duration policies and mainly consist of whole life, term life, endowments, medical insurance and individual annuity insurance contracts. For policies other than individual annuity insurance contracts, computation of policy liabilities necessarily includes assumptions about mortality, morbidity, lapse rates, future yields on related investments and other factors applicable at the time the policies are written. A certain subsidiary continually evaluates the potential for changes in the estimates and assumptions applied in determining policy liabilities, both positive and negative and uses the results of these evaluations both to adjust recorded liabilities and to adjust underwriting criteria and product offerings.

The insurance contracts sold by the subsidiary include variable annuity, variable life and fixed annuity insurance contracts. The subsidiary manages investment assets on behalf of variable annuity and variable life policyholders, which consist of equity securities and are included in investments in securities in the consolidated balance sheets. These investment assets are measured at fair value with realized and unrealized gains or losses recognized in life insurance premiums and related investment income in the consolidated statements of income. The subsidiary elected the fair value option for the entire variable annuity and variable life insurance contracts with changes in the fair value recognized in life insurance costs.

The subsidiary provides minimum guarantees to variable annuity and variable life policyholders under which it is exposed to the risk of compensating losses incurred by the policyholders to the extent contractually required. To mitigate the risk, a portion of the minimum guarantee risk related to variable annuity and variable life insurance contracts is ceded to reinsurance companies and the remaining risk is economically hedged by entering into derivative contracts. The reinsurance contracts do not relieve the subsidiary from the obligation as the primary obligor to compensate certain losses incurred by the policyholders, and the default of the reinsurance companies may impose additional losses on the subsidiary. Certain subsidiaries have elected the fair value option for certain reinsurance contracts relating to variable annuity and variable life insurance contracts, which is included in other assets in the consolidated balance sheets.

Policy liabilities and policy account balances for fixed annuity insurance contracts are measured based on the single-premiums plus interest based on expected rate and fair value adjustments relating to the acquisition of the subsidiary, less withdrawals, expenses and other charges. The credited interest is recorded in life insurance costs in the consolidated statements of income.

Certain costs related directly to the successful acquisition of new or renewal insurance contracts, or deferred policy acquisition costs are deferred and amortized over the respective policy periods in proportion to anticipated premium revenue. These deferred policy acquisition costs consist primarily of first-year commissions, except for recurring policy maintenance costs and certain variable costs and expenses for underwriting policies.

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

The allowance for doubtful receivables on direct financing leases and probable loan losses is maintained at a level which, in the judgment of management, is appropriate to provide for probable losses inherent in lease and loan portfolios. The allowance is increased by provision 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 appropriateness of the allowance, management considers various factors, including the business characteristics and financial conditions 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 value of underlying collateral and guarantees.

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Impaired loans are individually evaluated for a valuation allowance 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 loans if the loans are collateral-dependent. For non-impaired loans, including loans that are not individually evaluated for impairment, and direct financing leases, the Company and its subsidiaries evaluate prior charge-off experience segmented by the debtors' industries and the purpose of the loans, and then develop the allowance for doubtful receivables on direct financing leases and probable loan losses considering the prior charge-off experience and primarily current economic conditions.

The Company and its subsidiaries charge off doubtful receivables when the likelihood of any future collection is believed to be minimal considering debtors' creditworthiness and the liquidation status of collateral.

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

The Company and its subsidiaries perform a recoverability test for long-lived assets to be held and used in operations, including tangible assets and intangible assets being amortized, consisting primarily of office buildings, condominiums, golf courses and other properties under facility operations, whenever events or changes in circumstances indicated that the assets might be impaired. The assets are considered not recoverable when the undiscounted future cash flows estimated to be generated by those assets are less than the carrying amount of those assets. The carrying amount of assets not recoverable is reduced to fair value if lower than the carrying amount. The Company and its subsidiaries determine the fair value using appraisals prepared by independent third party appraisers or our own staff of qualified appraisers based on recent transactions involving sales of similar assets or other valuation techniques such as discounted cash flows methodologies using future cash flows estimated to be generated from operation of the existing assets or completion of development projects, as appropriate.

**(i) Investment in securities**

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

Available-for-sale securities are reported at fair value, and unrealized gains or losses are recorded in accumulated other comprehensive income (loss), net of applicable income taxes, except investments which are recorded at fair value with unrealized gains and losses included in income by electing the fair value option.

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

Other securities are recorded at cost or carrying value that reflects equity income and loss based on the Company's share, except investments which are recorded at fair value with unrealized gains and losses included in income by electing the fair value option.

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 the issuer's 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 six months.

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For debt securities, where the fair value is less than the amortized cost, the Company and its subsidiaries consider whether those securities are other-than-temporarily impaired using all available information about their collectability. The Company and its subsidiaries do not consider a debt security to be other-than-temporarily impaired if (1) the Company and its subsidiaries do not intend to sell the debt security, (2) it is not more likely than not that the Company and its subsidiaries will be required to sell the debt security before recovery of its amortized cost basis and (3) the present value of estimated cash flows will fully cover the amortized cost of the security. On the other hand, the Company and its subsidiaries consider a debt security to be other-than-temporarily impaired if any of the above mentioned three conditions are not met. When the Company and its subsidiaries deem a debt security to be other-than-temporarily impaired, the Company and its subsidiaries recognize the entire difference between the amortized cost and the fair value of the debt securities in earnings if the Company and its subsidiaries intend to sell the debt security or it is more likely than not that the Company and its subsidiaries will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss. However, if the Company and its subsidiaries do not intend to sell the debt security and it is not more likely than not that the Company and its subsidiaries will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, the Company and its subsidiaries separate the difference between the amortized cost and the fair value of the debt securities into the credit loss component and the non-credit loss component. The credit loss component is recognized in earnings, and the non-credit loss component is recognized in other comprehensive income (loss), net of applicable income taxes.

For other securities, when the Company and its subsidiaries determine the decline in value is other than temporary, the Company and its subsidiaries reduce the carrying value of the security to the fair value and charge against income losses related to these other securities.

**(j) Income taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date. The Company and its subsidiaries release to earnings stranded income tax effects in accumulated other comprehensive income (loss) resulting from changes in tax laws or rates or changes in judgment about realization of a valuation allowance on a specific identification basis when the individual items are completely sold or terminated. 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 Company and its subsidiaries file tax returns in Japan and certain foreign tax jurisdictions and 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 tax positions that meet the recognition threshold at the largest amount of tax benefit that is greater than 50 percent likely to be realized upon settlement with the taxing authority.

The Company and its subsidiaries present an unrecognized tax benefit as either a reduction of a deferred tax asset, a reduction of an amount refundable or a liability, based on the intended method of settlement. The Company and its subsidiaries classify penalties and interest expense related to income taxes as part of provision for income taxes in the consolidated statements of income.

The Company and certain subsidiaries have elected to file a consolidated tax return for National Corporation tax purposes.

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

The Company and its subsidiaries have securitized and sold to investors various financial assets such as lease receivables and loan receivables. In the securitization process, the assets to be securitized are sold to trusts or SPEs that issue asset-backed beneficial interests and securities to the investors.

Trusts or SPEs used in securitization transactions are consolidated if the Company and its subsidiaries are the primary beneficiary of the trusts or SPEs, and the transfers of the financial assets to those consolidated trusts and SPEs are not accounted for as sales. Assets held by consolidated trusts or consolidated SPEs continue to be accounted for as lease receivables or loan receivables, as they were before the transfer, and asset-backed beneficial interests and securities issued to the investors are accounted for as debt. When the Company and its subsidiaries have transferred financial assets to a transferee that is not subject to consolidation, the Company and its subsidiaries account for the transfer as a sale if control over the transferred assets is surrendered.

The Company and certain subsidiaries originate and sell loans into the secondary market, while retaining the obligation to service those loans. In addition, a certain subsidiary undertakes obligations to service loans originated by others. The subsidiary recognizes servicing assets if it expects the benefit of servicing to more than adequately compensate it for performing the servicing or recognizes servicing liabilities if it expects the benefit of servicing to less than adequately compensate it. These servicing assets and liabilities are initially recognized at fair value and subsequently accounted for using the amortization method whereby the assets and liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss. On a quarterly basis, servicing assets and liabilities are evaluated for impairment or increased obligations. The fair value of servicing assets and liabilities is estimated using an internal valuation model, or by obtaining an opinion of value from an independent third-party vendor. Both methods are based on calculating the present value of estimated future net servicing cash flows, taking into consideration discount rates, prepayments and servicing costs. The internal valuation model is validated at least semiannually through third-party valuations.

**(l) Derivative financial instruments**

The Company and its subsidiaries recognize all derivatives on the consolidated balance sheets at fair value. The accounting treatment of subsequent changes in the fair value depends on their use, and whether they qualify as effective hedges for accounting purposes. Derivatives for the purpose of economic hedge that are not qualified for hedge accounting are adjusted to fair value through the consolidated statements of income. If a derivative is a hedge, then depending on its nature, changes in its fair value will be either offset against changes in the fair value of hedged assets or liabilities through the consolidated statements of income, 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 or a recognized asset or liability ( cash flow hedge), changes in the fair value of the derivative are recorded in other comprehensive

income (loss) to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item.

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 other comprehensive income (loss), depending on whether the hedged transaction is a fair-value hedge or a cash-flow hedge. However, if a

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

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 other comprehensive income (loss).

The ineffective portion of changes in fair value of derivatives that qualify as a hedge are recorded in earnings.

For all hedging relationships that are designated and qualified as hedging, at inception the Company and its subsidiaries formally document the details of the hedging relationship and the hedged activity. The Company and its subsidiaries 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.

**(m) Pension plans**

The Company and certain subsidiaries have contributory and non-contributory pension plans covering substantially all of their employees. The costs of pension plans are accrued based on amounts determined using actuarial methods, with 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 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 sheets. 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.

**(n) Stock-based compensation**

The Company and its subsidiaries measure stock-based compensation expense as consideration for services provided by employees based on the fair value of the grant date. The costs are recognized over the requisite service period.

**(o) 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 the Companies Act implemented on May 1, 2006, the above-mentioned method of accounting required by the Code became 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

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such stock splits made prior to October 1, 2001 been accounted for in this manner, additional paid-in capital as of March 31, 2018 would have increased by approximately ¥24,674 million, with a corresponding decrease in retained earnings. Total ORIX Corporation shareholders' equity would remain unchanged. Stock splits on May 19, 2000 were excluded from the above amounts because the stock splits were not considered to be stock dividends under U.S. GAAP.

**(p) Cash and cash equivalents**

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

**(q) Restricted cash**

Restricted cash consists of trust accounts under securitization programs and real estate, deposits related to servicing agreements, deposits collected on the underlying assets and applied to non-recourse loans, deposits held on behalf of third parties in the aircraft-related business and others.

**(r) Property under facility operations**

Property under facility operations consist primarily of operating facilities (including golf courses, hotels, training facilities and senior housings) and environmental assets (including mega solar), which are stated at cost less accumulated depreciation, and depreciation is calculated mainly on a straight-line basis over the estimated useful lives of the assets. Depreciation expenses in fiscal 2016, 2017 and 2018 were ¥16,321 million, ¥20,976 million and ¥25,444 million, respectively. Accumulated depreciation was ¥85,255 million and ¥101,103 million as of March 31, 2017 and 2018, respectively. Estimated useful lives range up to 50 years for buildings, up to 60 years for structures and up to 30 years for others.

**(s) Trade notes, accounts and other receivable**

Trade notes, accounts and other receivable primarily include accounts receivables in relation to sales of assets to be leased, inventories and other assets and payment made on behalf of lessees for property tax, maintenance fees and insurance premiums in relation to direct financing lease contracts.

**(t) Inventories**

Inventories consist primarily of residential condominiums under development, completed residential condominiums (including those waiting to be delivered to buyers under the contract for sale), and merchandise for sale. Residential condominiums under development are carried at cost less any impairment losses, and completed residential condominiums and merchandises for sale are stated at the lower of cost or fair value less cost to sell. The cost of inventories that are unique and not interchangeable is determined on the specific identification method and the cost of other inventories is principally determined on the average method. As of March 31, 2017 and 2018, residential condominiums under development were ¥60,920 million and ¥51,415 million, respectively, and completed residential



condominiums and merchandises for sale were ¥56,943 million and ¥59,586 million, respectively.

The Company and its subsidiaries recorded ¥168 million, ¥916 million and ¥936 million of write-downs principally on completed residential condominiums and merchandise for sale for fiscal 2016, 2017 and 2018, respectively, primarily resulting from a decrease in expected sales price. These write-downs were recorded in cost of goods and real estate sold and principally included in the Investment and Operation segment.

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**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****ORIX Corporation and Subsidiaries****(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. Depreciation expenses in fiscal 2016, 2017 and 2018 were ¥5,110 million, ¥5,380 million and ¥5,131 million, respectively. Accumulated depreciation was ¥47,534 million and ¥51,395 million as of March 31, 2017 and 2018, respectively. Estimated useful lives range up to 65 years for buildings and structures and up to 22 years for machinery and equipment.

**(v) Other assets**

Other assets consist primarily of the excess of purchase prices over the net assets acquired in acquisitions (goodwill) and other intangible assets, reinsurance recoverables in relation to reinsurance contracts, deferred insurance policy acquisition costs which are amortized over the contract periods, leasehold deposits, advance payments made in relation to purchases of assets to be leased and construction of real estate for operating lease, prepaid benefit cost, servicing assets, derivative assets and deferred tax assets.

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

The Company and its subsidiaries account for all business combinations using the acquisition method. The Company and its subsidiaries recognize intangible assets acquired in a business combination apart from goodwill if the intangible assets meet one of two criteria either the contractual-legal criterion or the separability criterion. Goodwill is measured as an excess of the aggregate of consideration transferred and the fair value of noncontrolling interests over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed in the business combination measured at fair value. The Company and its subsidiaries would recognize a bargain purchase gain when the amount of recognized net assets exceeds the sum of consideration transferred and the fair value of noncontrolling interests. In a business combination achieved in stages, the Company and its subsidiaries remeasure their previously held equity interest at their acquisition-date fair value and recognize the resulting gain or loss, if any, in earnings.

The Company and its subsidiaries perform an impairment test for goodwill and any intangible assets that have indefinite useful lives at least annually. Additionally, if events or changes in circumstances indicate that the asset might be impaired, the Company and its subsidiaries test for impairment when such events or changes occur.

The Company and its subsidiaries have the option to perform a qualitative assessment to determine whether to calculate the fair value of a reporting unit under the first step of the two-step goodwill impairment test. The Company and its subsidiaries perform the qualitative assessment for some goodwill but bypass the qualitative assessment and proceed directly to the first step of the two-step impairment test for other goodwill. For the goodwill for which the qualitative assessment is performed, if, after assessing the totality of events or circumstances, the Company and/or subsidiaries determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the Company and/or subsidiaries do not perform the two-step impairment test. However, if the Company and/or subsidiaries conclude otherwise or determine to bypass the qualitative assessment, the Company and/or subsidiaries proceed to perform the first step of the two-step impairment test. The first step of goodwill impairment test, used to identify potential impairment, calculates the fair value of the reporting unit and compares the fair value

with the carrying amount of the reporting unit. If the fair value of the reporting unit falls below its carrying amount, the second step of the goodwill impairment test is performed to measure the amount of impairment loss. The second step of the goodwill impairment test compares implied fair value of goodwill with its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**ORIX Corporation and Subsidiaries**

excess. The Company and its subsidiaries test the goodwill either at the operating segment level or one level below the operating segments.

The Company and its subsidiaries have the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. The Company and its subsidiaries perform the qualitative assessment for some indefinite-lived intangible assets but bypass the qualitative assessment and perform the quantitative assessment for other indefinite-lived intangible assets. For those indefinite-lived assets for which the qualitative assessment is performed, if, after assessing the totality of events and circumstances, the Company and/or subsidiaries conclude that it is not more likely than not that the indefinite-lived asset is impaired, then the Company and/or subsidiaries do not perform the quantitative impairment test. However, if the Company and/or subsidiaries conclude otherwise or determine to bypass the qualitative assessment, the Company and/or subsidiaries calculate the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Intangible assets with finite lives are amortized over their useful lives and tested for impairment. The Company and its subsidiaries perform a recoverability test for the intangible assets whenever events or changes in circumstances indicate that the assets might be impaired. The intangible assets are considered not recoverable when the undiscounted future cash flows estimated to be generated by those assets are less than the carrying amount of those assets, and the net carrying amount of assets not recoverable is reduced to fair value if lower than the carrying amount.

**(x) Trade notes, accounts and other payable**

Trade notes, accounts and other payable include primarily accounts payable in relation to purchase of assets to be leased, merchandise for sale and other assets, accounts payable in relation to construction work of residential condominiums and deposits received mainly for withholding income tax.

**(y) Other Liabilities**

Other liabilities include primarily interest, bonus accrued expense and accrued benefit liability, advances received from lessees in relation to lease contracts, deposit received from real estate transaction and derivative liabilities.

**(z) Capitalization of interest costs**

The Company and its subsidiaries capitalized interest costs of ¥1,639 million, ¥1,066 million and ¥1,043 million in fiscal 2016, 2017 and 2018, respectively, primarily related to specific environment and energy assets and long-term real estate development projects.

**(aa) Advertising**

The costs of advertising are expensed as incurred. The total amounts charged to advertising expense in fiscal 2016, 2017 and 2018 were ¥21,276 million, ¥25,309 million and ¥26,083 million, respectively.

**(ab) Earnings per share**

Basic earnings per share is computed by dividing net income attributable to ORIX Corporation shareholders by the weighted average number of shares of outstanding common stock in each period. Diluted earnings per share is calculated by reflecting the potential dilution that could occur if securities or other contracts issuing common stock were exercised or converted into common stock.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**ORIX Corporation and Subsidiaries**

**(ac) Additional acquisition and partial sale of the parent's ownership interest in subsidiaries**

Additional acquisition of the parent's ownership interest in subsidiaries and partial sale of such interest where the parent continues to retain control of the subsidiary are accounted for as equity transactions. On the other hand, in a transaction that results in the loss of control, the gain or loss recognized in income includes the realized gain or loss related to the portion of ownership interest sold and the gain or loss on the remeasurement to fair value of the interest retained.

**(ad) Redeemable noncontrolling interests**

Noncontrolling interests in a certain subsidiary are redeemable preferred shares which are subject to call and put rights upon certain shareholder events. As redemption of the noncontrolling interest is not solely in the control of the subsidiary, it is recorded between liabilities and equity on the consolidated balance sheets at its estimated redemption value.

**(ae) Issuance of stock by an affiliate**

When an affiliate issues stocks to unrelated third parties, the Company and its subsidiaries' ownership interest in 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 adjust the carrying amount of its investment in the affiliate and recognize gain or loss in the consolidated statements of income in the year in which the change in ownership interest occurs.

**(af) New accounting pronouncements**

In May 2014, Accounting Standards Update 2014-09 (Revenue from Contracts with Customers - ASC 606 (Revenue from Contracts with Customers)) was issued. The core principle of this Update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply a five-step model to determine when to recognize revenue, and in what amount. The five steps to apply the model are:

Identify the contract(s) with a customer

Identify the performance obligations in the contract

Determine the transaction price

Allocate the transaction price to the performance obligations in the contract

Recognize revenue when (or as) the entity satisfies a performance obligation

This Update requires an entity to disclose more information about contracts with customers than under the current disclosure requirements.

In April 2016, Accounting Standards Update 2016-10 ( Identifying Performance Obligations and Licensing ASC 606 ( Revenue from Contracts with Customers )) was issued as an amendment of the new revenue standard. This Update adds further guidance on identifying performance obligations and also improves the operability and understandability of the licensing implementation guidance. The amendments do not change the core principle of the guidance in ASC 606.

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

In May 2016, Accounting Standards Update 2016-12 ( Narrow-Scope Improvements and Practical Expedients ASC 606 ( Revenue from Contracts with Customers )) was issued as an amendment of the new revenue standard. This Update (1) clarifies the objective of the collectibility criterion for applying paragraph 606-10-25-7; (2) permits an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; (3) specifies that the measurement date for non-cash consideration is contract inception; (4) provides a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations; (5) clarifies that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application, and (6) clarifies that an entity that retrospectively applies ASC 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption.

These Updates are effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017. Early adoption is permitted only for the fiscal year beginning after December 15, 2016, and interim periods within the fiscal year. An entity should apply the amendments in these Updates using either a retrospective method or a cumulative-effect method. The entity may elect some optional practical expedients when applying these Updates. The entity using the cumulative-effect method would recognize the cumulative effect of initially applying these Updates as an adjustment to the opening balance of retained earnings or net assets at the date of initial application. The Company and its subsidiaries will adopt these Updates on April 1, 2018, using the cumulative-effect method, for only those contracts that are not completed at the date of initial adoption. These Updates require a number of new disclosures to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The scope of these Updates excludes lease contracts, financial instruments and other contractual rights and obligations within the scope of other ASC Topics including loans, investments in securities and derivatives and also excludes contracts within the scope of ASC Topic 944 ( Financial Services Insurance ). Based on the Company and its subsidiaries' assessment and estimates, the impact of the application of these Updates will result in a change in the timing of revenue recognition and accounting policy for performance fees received from customers regarding asset management business. Currently, certain subsidiaries recognize such fees when earned based on the performance of the asset under management, while other subsidiaries recognize the fees on accrual basis over the period in which services are performed. New guidance requires recognizing such fees as revenue to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Additionally, there will be changes in the timing of revenue recognition and accounting policy for the certain project-based orders in real estate business for which the Company and its subsidiaries currently apply the percentage-of-completion or completed contract method. Under the new guidance, there are specific criteria to determine if a performance obligation should be satisfied over time or at a point in time. In some cases, the revenue recognition timing will change from current practice based on applying the specific criteria under the new guidance. Further, the Company and its subsidiaries will expand its disclosures regarding these revenue streams, to discuss contract balances, performance obligations, significant judgments made, and contract costs. The adoption of these Updates will not have material effect on the Company and its subsidiaries' results of operations or financial position.



In July 2015, Accounting Standards Update 2015-11 ( Simplifying the Measurement of Inventory ASC 330 ( Inventory )) was issued. This Update applies to all inventory except for which is measured using last-in, first-out (LIFO) or the retail inventory method, and requires an entity to measure inventory at the lower of cost and net realizable value. Additionally, this Update defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The

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

Company and its subsidiaries adopted this Update on April 1, 2017. The adoption had no effect on the Company and its subsidiaries' results of operations or financial position.

In January 2016, Accounting Standards Update 2016-01 ( Recognition and Measurement of Financial Assets and Financial Liabilities - ASC 825-10 ( Financial Instruments - Overall )) was issued. This Update revises accounting related to the classification and measurement of equity investments. This Update also revises the presentation of certain fair value changes for financial liabilities measured at fair value. Additionally, this Update amends certain disclosure requirements associated with the fair value of financial instruments. This Update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early application to financial statements of fiscal years or interim periods that have not yet been issued is permitted as of the beginning of the fiscal year of adoption. The amendments in this Update should be applied by means of cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. And the amendments relate to equity investments without readily determinable fair value are to be applied prospectively. The Company and its subsidiaries will adopt this Update on April 1, 2018. The impact of adopting this Update will result in recognizing unrealized changes in fair value of equity investments through earnings rather than other comprehensive income. Equity investments currently accounted for under the cost method of accounting will be accounted for either at fair value with changes in fair value recognized in earnings or using alternative method that requires carrying value to be adjusted by using subsequent observable transactions. The effect of the adoption of this Update on the Company and its subsidiaries' financial position at the adoption date will be a decrease of ¥2,899 million in accumulated other comprehensive income and an increase of ¥2,899 million in retained earnings in the consolidated balance sheets.

In February 2016, Accounting Standards Update 2016-02 (ASC 842 ( Leases )) was issued. This Update requires a lessee to recognize most leases on the balance sheet. Lessor accounting remains substantially similar to current U.S. GAAP but with some important changes. This Update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted. The amendments in this Update should be applied at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. The Company and its subsidiaries will adopt this Update on April 1, 2019. Based on the Company and its subsidiaries' initial assessment and best estimates to date, the impact of the application of the Update will likely result in gross up of right-of-use assets and corresponding lease liabilities principally for operating leases where it is the lessee, such as ground leases and office and equipment leases. Other than the impact that have been currently identified, the Company and its subsidiaries continue to evaluate the effect that the adoption of this Update will have on the Company and its subsidiaries' results of operations or financial position, as well as changes in disclosures required by this Update.

In March 2016, Accounting Standards Update 2016-07 ( Simplifying the Transition to the Equity Method Accounting - ASC 323 ( Investments - Equity Method and Joint Ventures )) was issued. This Update eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. This Update also requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and requires that an

entity that has an available-for sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The Company and its subsidiaries adopted this Update on April 1, 2017. The adoption had no effect on the Company and its subsidiaries results of operations or financial position.

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In June 2016, Accounting Standards Update 2016-13 ( Measurement of Credit Losses on Financial Instruments ASC 326 ( Financial Instruments Credit Losses )) was issued. This Update significantly changes how companies measure and recognize credit impairment for many financial assets. The new current expected credit loss model requires companies to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets that are within the scope of this Update. This Update also makes targeted amendments to the current impairment model for available-for-sale debt securities. This Update is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments in this Update should be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. Early application is permitted for fiscal year beginning after December 15, 2018, including interim periods within the fiscal year. The Company and its subsidiaries will adopt this Update on April 1, 2020. The Company and its subsidiaries continue to evaluate the effect that the adoption of this Update will have on the Company and its subsidiaries' results of operations or financial position, as well as changes in disclosures required by this Update.

In August 2016, Accounting Standards Update 2016-15 ( Classification of Certain Cash Receipts and Cash Payments ASC 230 ( Statement of Cash Flows )) was issued. This Update amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and cash payments in the statement of cash flows. This Update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. This Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company and its subsidiaries will adopt this Update on April 1, 2018. Generally, the effect of adopting this Update on the Company and its subsidiaries' statement of cash flows will depend on future transactions.

In October 2016, Accounting Standards Update 2016-16 ( Intra-Entity Transfers of Assets Other Than Inventory ASC 740 ( Income Taxes )) was issued. This Update eliminates the exception to defer the income tax consequences of intra-entity transfers of assets other than inventory until the assets are ultimately sold to an outside party and requires the recognition of the current and deferred tax consequences when those transfers occur. This Update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. This Update should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company and its subsidiaries will adopt this Update on April 1, 2018. The effect of the adoption of this Update on the Company and its subsidiaries' financial position at the adoption date will be an increase of ¥3,772 million in retained earnings in the consolidated balance sheets.

In October 2016, Accounting Standards Update 2016-17 ( Interests Held through Related Parties That Are under Common Control ASC 810 ( Consolidation )) was issued. This Update amends the consolidation guidance on how a reporting entity that is the single decision maker of a VIE should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The Company and its subsidiaries adopted this Update on April 1, 2017. The adoption had no effect on the Company and its subsidiaries' results of operations or financial position.

In November 2016, Accounting Standards Update 2016-18 ( Restricted Cash ASC230 ( Statement of Cash Flows )) was issued. This Update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This Update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early

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adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company and its subsidiaries will adopt this Update on April 1, 2018. The Company and its subsidiaries are currently evaluating the effect that the adoption of this Update will have on the Company and its subsidiaries' statement of cash flows.

In January 2017, Accounting Standards Update 2017-04 (Simplifying the Test for Goodwill Impairment—ASC 350 (Intangible Goodwill and Other)) was issued. This Update eliminates Step 2 from the current goodwill impairment test. Instead, goodwill impairments would be measured by the amount by which the carrying amount exceeds the reporting unit's fair value. This Update also eliminates the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it is more likely than not that the goodwill is impaired, to perform Step 2 of the goodwill impairment test. This Update is effective for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates on or after January 1, 2017. The Company and its subsidiaries will adopt this Update on April 1, 2020. Generally, the effect of adopting this Update on the Company and its subsidiaries' results of operation or financial position will depend on the outcomes of future goodwill impairment tests.

In August 2017, Accounting Standards Update 2017-12 (Targeted Improvements to Accounting for Hedging Activities—ASC 815 (Derivatives and Hedging)) was issued. This Update changes the recognition and presentation requirements of hedge accounting including eliminating the requirement to separately measure and report hedge ineffectiveness and presenting all items that affect earnings in the same income statement line as the hedged item. This Update is effective for fiscal years beginning after December 15, 2018, and interim period within those fiscal years. Early adoption is permitted, including in an interim period. For cash flow hedges and net investment hedges existing at the date of adoption, an entity should apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of fiscal year that an entity adopts the amendment in this Update. The amended presentation and disclosure guidance is required only prospectively. At present, the Company and its subsidiaries will adopt this Update on April 1, 2019. The Company and its subsidiaries are currently evaluating the effect that the adoption of this Update will have on the Company and its subsidiaries' results of operations or financial position.

In February 2018, Accounting Standards Update 2018-02 (Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income—ASC 220 (Income Statement Reporting Comprehensive Income)) was issued. This Update provides the option to reclassify certain stranded tax effects resulting from the Tax Cuts and Jobs Act, which was enacted on December 22, 2017, from accumulated other comprehensive income to retained earnings. The Company and its subsidiaries early adopted this Update on January 1, 2018. The effect of the early adoption on the Company and its subsidiaries' financial position at the adoption date was an increase of ¥692 million in accumulated other comprehensive income and a decrease of ¥692 million in retained earnings in the consolidated balance sheets.

**2. Fair Value Measurements**

The Company and its subsidiaries classify and prioritize inputs used in valuation techniques to measure fair value into the 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 assets or liabilities, either directly or indirectly.

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**ORIX Corporation and Subsidiaries**

Level 3 Unobservable inputs for the assets or liabilities.

The Company and its subsidiaries differentiate 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 mainly measure certain loans held for sale, trading securities, available-for-sale securities, certain investment funds, derivatives, certain reinsurance recoverables, certain contingent consideration, and variable annuity and variable life insurance contracts at fair value on a recurring basis.

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

The following tables present recorded amounts of major financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2017 and 2018:

March 31, 2017

	Millions of yen			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Loans held for sale*1	¥ 19,232	¥ 0	¥ 19,232	¥ 0
Trading securities	569,074	37,500	531,574	0
Available-for-sale securities:	1,165,417	93,995	946,906	124,516
Japanese and foreign government bond securities*2	345,612	2,748	342,864	0
Japanese prefectural and foreign municipal bond securities	168,822	0	168,822	0
Corporate debt securities*3	393,644	11,464	380,562	1,618
Specified bonds issued by SPEs in Japan	1,087	0	0	1,087
CMBS and RMBS in the Americas	98,501	0	40,643	57,858
Other asset-backed securities and debt securities	64,717	0	764	63,953
Equity securities*4	93,034	79,783	13,251	0
Other securities:	27,801	0	0	27,801
Investment funds*5	27,801	0	0	27,801
Derivative assets:	22,999	734	17,032	5,233
Interest rate swap agreements	304	0	304	0
Options held/written and other	5,804	0	571	5,233
Futures, foreign exchange contracts	12,346	734	11,612	0
Foreign currency swap agreements	4,545	0	4,545	0
Netting*6	(4,019)	0	0	0
Net derivative assets	18,980	0	0	0
Other assets:	22,116	0	0	22,116
Reinsurance recoverables*7	22,116	0	0	22,116
<b>Total</b>	<b>¥ 1,826,639</b>	<b>¥ 132,229</b>	<b>¥ 1,514,744</b>	<b>¥ 179,666</b>
<b>Liabilities:</b>				
Derivative liabilities:	¥ 16,295	¥ 165	¥ 16,130	¥ 0

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Interest rate swap agreements	4,567	0	4,567	0
Options held/written and other	1,071	0	1,071	0
Futures, foreign exchange contracts	8,821	165	8,656	0
Foreign currency swap agreements	1,677	0	1,677	0
Credit derivatives held	159	0	159	0
Netting*6	(4,019)	0	0	0
Net derivative Liabilities	12,276	0	0	0
Policy Liabilities and Policy Account Balances:	605,520	0	0	605,520
Variable annuity and variable life insurance contracts*8	605,520	0	0	605,520
<b>Total</b>	<b>¥ 621,815</b>	<b>¥ 165</b>	<b>¥ 16,130</b>	<b>¥ 605,520</b>

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

March 31, 2018

	Millions of yen			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Loans held for sale*1	¥ 17,260	¥ 0	¥ 17,260	¥ 0
Trading securities	422,053	35,766	386,287	0
Available-for-sale securities:	1,015,477	65,716	828,844	120,917
Japanese and foreign government bond securities*2	275,810	3,949	271,861	0
Japanese prefectural and foreign municipal bond securities	163,236	0	163,236	0
Corporate debt securities*3	366,475	8,882	354,556	3,037
Specified bonds issued by SPEs in Japan	861	0	0	861
CMBS and RMBS in the Americas	74,176	0	38,166	36,010
Other asset-backed securities and debt securities	81,321	0	312	81,009
Equity securities*4	53,598	52,885	713	0
Other securities:	37,879	0	0	37,879
Investment funds*5	37,879	0	0	37,879
Derivative assets:	21,831	507	19,033	2,291
Interest rate swap agreements	327	0	327	0
Options held/written and other	7,025	0	4,734	2,291
Futures, foreign exchange contracts	14,057	507	13,550	0
Foreign currency swap agreements	422	0	422	0
Netting*6	(2,105)	0	0	0
Net derivative assets	19,726	0	0	0
Other assets:	15,008	0	0	15,008
Reinsurance recoverables*7	15,008	0	0	15,008
<b>Total</b>	<b>¥ 1,529,508</b>	<b>¥ 101,989</b>	<b>¥ 1,251,424</b>	<b>¥ 176,095</b>
<b>Liabilities:</b>				
Derivative liabilities:	¥ 12,400	¥ 318	¥ 12,082	¥ 0
Interest rate swap agreements	4,924	0	4,924	0
Options held/written and other	701	0	701	0

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Futures, foreign exchange contracts	3,447	318	3,129	0
Foreign currency swap agreements	3,220	0	3,220	0
Credit derivatives held	108	0	108	0
Netting*6	(2,105)	0	0	0
Net derivative Liabilities	10,295	0	0	0
Policy Liabilities and Policy Account Balances:	444,010	0	0	444,010
Variable annuity and variable life insurance contracts*8	444,010	0	0	444,010
<b>Total</b>	<b>¥ 456,410</b>	<b>¥ 318</b>	<b>¥ 12,082</b>	<b>¥ 444,010</b>

\*1 A certain subsidiary elected the fair value option on the loans held for sale. These loans are multi-family and seniors housing loans and are sold to Federal National Mortgage Association ( Fannie Mae ) or institutional investors. Included in Other (income) and expense, net in the consolidated statements of income were a

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

loss from the change in the fair value of the loans of ¥71 million for fiscal 2016, a gain from the change in the fair value of the loans of ¥31 million for fiscal 2017 and a loss from the change in the fair value of the loans of ¥663 million for fiscal 2018. No gains or losses were recognized in earnings for fiscal 2016, 2017 and 2018 attributable to changes in instrument-specific credit risk. The amounts of aggregate unpaid principal balance and aggregate fair value of the loan held for sale as of March 31, 2017, were ¥18,362 million and ¥19,232 million, respectively, and the amount of the aggregate fair value exceeded the amount of aggregate unpaid principal balance by ¥870 million. The amounts of aggregate unpaid principal balance and aggregate fair value as of March 31, 2018, were ¥16,873 million and ¥17,260 million, respectively, and the amount of the aggregate fair value exceeded the amount of aggregate unpaid principal balance by ¥387 million. As of March 31, 2017 and 2018, there were no loans that were 90 days or more past due, or in non-accrual status.

- \*2 A certain subsidiary elected the fair value option for investments in foreign government bond securities included in available-for-sale securities. Included in Gains on investment securities and dividends in the consolidated statements of income were losses of ¥12 million and ¥12 million from the change in the fair value of those investments for fiscal 2017 and 2018. The amounts of aggregate fair value elected the fair value option were ¥1,015 million and ¥719 million as of March 31, 2017 and 2018, respectively.
- \*3 A certain subsidiary elected the fair value option for investments in foreign corporate debt securities included in available-for-sale securities. Included in Gains on investment securities and dividends in the consolidated statements of income were losses of ¥31 million and ¥181 million from the change in the fair value of those investments for fiscal 2017 and 2018. The amounts of aggregate fair value elected the fair value option were ¥1,026 million and ¥8,882 million as of March 31, 2017 and 2018, respectively.
- \*4 A certain subsidiary elected the fair value option for investments in equity securities included in available-for-sale securities. Included in Gains on investment securities and dividends in the consolidated statements of income were a loss of ¥202 million, gains of ¥1,277 million and ¥961 million from the change in the fair value of those investments for fiscal 2016, 2017 and 2018. The amount of aggregate fair value elected the fair value option were ¥15,400 million and ¥22,365 million as of March 31, 2017 and 2018, respectively.
- \*5 Certain subsidiaries elected the fair value option for certain investments in investment funds included in other securities. Included in Gains on investment securities and dividends in the consolidated statements of income were a loss of ¥4 million, gains of ¥699 million and ¥1,456 million from the change in the fair value of those investments for fiscal 2016, 2017 and 2018. The amounts of aggregate fair value elected the fair value option were ¥7,453 million and ¥5,665 million as of March 31, 2017 and 2018, respectively.
- \*6 It represents the amount offset under counterparty netting of derivative assets and liabilities.
- \*7 Certain subsidiaries elected the fair value option for certain reinsurance contracts held. The fair value of the reinsurance contracts elected for the fair value option in other assets were ¥22,116 million and ¥15,008 million as of March 31, 2017 and 2018, respectively. For the effect of changes in the fair value of those reinsurance contracts on earnings for fiscal 2017 and 2018, see Note 23 Life Insurance Operations.
- \*8 Certain subsidiaries elected the fair value option for the entire variable annuity and variable life insurance contracts held in order to match the earnings recognized for the changes in the fair value of policy liabilities and policy account balances with earnings recognized for gains or losses from the investment assets managed on behalf of variable annuity and variable life policyholders, derivative contracts and the changes in the fair value of reinsurance contracts. The fair value of the variable annuity and variable life insurance contracts elected for the fair value option in policy liabilities and policy account balances were ¥605,520 million and ¥444,010 million as of March 31, 2017 and 2018, respectively. For the effect of changes in the fair value of the variable annuity and

variable life insurance contracts on earnings for fiscal 2017 and 2018, see Note 23 Life Insurance Operations.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## ORIX Corporation and Subsidiaries

Changes in economic conditions or valuation methodologies may require the transfer of assets and liabilities from one fair value level to another. In such instances, the Company and its subsidiaries recognize the transfer at the beginning of the quarter during which the transfers occur. The Company and its subsidiaries evaluate the significance of transfers between levels based upon size of the transfer relative to total assets, total liabilities or total earnings. In fiscal 2017, there were no transfers between Level 1 and Level 2. In fiscal 2018, equity securities totaling ¥3,887 million were transferred from level 2 to level 1, since the inputs became available to use the quoted price in active markets.

The following tables present the reconciliation of financial assets and liabilities (net) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) in fiscal 2016, 2017 and 2018:

## 2016

Millions of yen

	Gains or losses (realized/unrealized)								Transfers in and/or out of Level 3 (net)*5	Balance at March 31, 2016	Change in unrealized gains or losses included in earnings for assets and liabilities still held at March 31, 2016*1
	Balance at April 1, 2015	Included in other comprehensive earnings*1	Included in income*2	Total	Purchases*3	Sales	Settlements*4	net			
Available-for-sale securities	¥ 97,051	¥ 922	¥(10,458)	¥(9,536)	¥47,886	¥(15,632)	¥(19,378)	¥(869)	¥ 99,522	¥ (679)	
Corporate debt securities	0	1	0	1	5	(1)	0	0	5	0	
Specified bonds issued by SPEs in Japan	7,280	5	16	21	0	(1,885)	(1,955)	0	3,461	2	
CMBS and RMBS in the Americas	22,658	424	(3,831)	(3,407)	26,431	(2,401)	(4,788)	0	38,493	(763)	

Other asset-backed securities and debt securities	66,252	492	(6,651)	(6,159)	21,450	(11,345)	(12,635)	0	57,563	82
Equity securities	861	0	8	8	0	0	0	(869)	0	0
Other securities	8,723	1,146	(2,194)	(1,048)	10,933	(857)	0	0	17,751	849
Investment funds	8,723	1,146	(2,194)	(1,048)	10,933	(857)	0	0	17,751	849
Derivative assets and liabilities (net)	11,870	(4,596)	0	(4,596)	5,857	0	(4,923)	0	8,208	(4,596)
Options held/written and other	11,870	(4,596)	0	(4,596)	5,857	0	(4,923)	0	8,208	(4,596)
Other asset	36,038	(8,482)	0	(8,482)	10,669	0	(370)	0	37,855	(8,482)
Reinsurance recoverables*6	36,038	(8,482)	0	(8,482)	10,669	0	(370)	0	37,855	(8,482)
Accounts payable	5,533	3,059	0	3,059	0	0	(2,474)	0	0	0
Contingent consideration	5,533	3,059	0	3,059	0	0	(2,474)	0	0	0
Policy Liabilities and Policy Account Balances	1,254,483	40,751	0	40,751	0	0	(418,731)	0	795,001	40,751
Variable annuity and variable life insurance contracts*7	1,254,483	40,751	0	40,751	0	0	(418,731)	0	795,001	40,751
<b>2017</b>										

## Millions of yen

	Gains or losses (realized/unrealized)							Change in unrealized gains or losses included in earnings for assets and liabilities still held at		
	Balance at April 1, 2016	Included in other comprehensive earnings*1	Included in income*2	Total	Purchases*3	Sales	Settlements*4 (net)*5	Balance at March 31, 2017	March 31, 2017*1	
Available-for-sale securities	¥ 99,522	¥ 287	¥ 10,106	¥ 10,393	¥ 37,212	¥ (6,545)	¥ (16,066)	¥ 0	¥ 124,516	¥ 98
	5	0	(3)	(3)	1,800	0	(184)	0	1,618	0



Corporate debt securities										
Specified bonds issued by SPEs in Japan	3,461	1	(29)	(28)	0	(1,200)	(1,146)	0	1,087	0
CMBS and RMBS in the Americas	38,493	202	2,674	2,876	21,871	(466)	(4,916)	0	57,858	23
Other asset-backed securities and debt securities	57,563	84	7,464	7,548	13,541	(4,879)	(9,820)	0	63,953	75
Other securities	17,751	639	475	1,114	14,521	(5,585)	0	0	27,801	581
Investment funds	17,751	639	475	1,114	14,521	(5,585)	0	0	27,801	581
Derivative assets and liabilities (net)	8,208	(4,141)	0	(4,141)	2,480	0	(1,314)	0	5,233	(4,141)
Options held/written and other	8,208	(4,141)	0	(4,141)	2,480	0	(1,314)	0	5,233	(4,141)
Other asset	37,855	(22,398)	0	(22,398)	8,309	0	(1,650)	0	22,116	(22,398)
Reinsurance recoverables*6	37,855	(22,398)	0	(22,398)	8,309	0	(1,650)	0	22,116	(22,398)
Policy Liabilities and Policy Account Balances	795,001	3,651	0	3,651	0	0	(185,830)	0	605,520	3,651
Variable annuity and variable life insurance contracts*7	795,001	3,651	0	3,651	0	0	(185,830)	0	605,520	3,651

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## ORIX Corporation and Subsidiaries

2018

Millions of yen

	Balance at April 1, 2017	Included in other comprehensive earnings*1	Gains or losses (realized/unrealized) income*2	Total	Purchases*3	Sales	Settlements*4	Transfers in and/ or out of Level 3 (net)*5	Balance at March 31, 2018	Change in unrealized gains or losses included in earnings for assets and liabilities still held at March 31, 2018*1
Available-for-sale securities	¥ 124,516	¥ 3,690	¥ (5,717)	¥ (2,027)	¥ 79,925	¥ (37,942)	¥ (43,555)	¥ 0	¥ 120,917	¥ (35)
Corporate debt securities	1,618	0	2	2	2,050	0	(633)	0	3,037	0
Specified bonds issued by SPEs in Japan	1,087	16	(3)	13	0	0	(239)	0	861	0
CMBS and RMBS in the Americas	57,858	1,664	(3,248)	(1,584)	1,858	(3,347)	(18,775)	0	36,010	(97)
Other asset-backed securities and debt securities	63,953	2,010	(2,468)	(458)	76,017	(34,595)	(23,908)	0	81,009	62
Other securities	27,801	4,169	(1,976)	2,193	26,991	(19,106)	0	0	37,879	4,274
Investment funds	27,801	4,169	(1,976)	2,193	26,991	(19,106)	0	0	37,879	4,274
Derivative assets and liabilities (net)	5,233	(3,356)	0	(3,356)	2,024	0	(1,610)	0	2,291	(3,356)
Options held/written and other	5,233	(3,356)	0	(3,356)	2,024	0	(1,610)	0	2,291	(3,356)
Other asset	22,116	(11,191)	0	(11,191)	5,385	0	(1,302)	0	15,008	(11,191)

Reinsurance recoverables*6	22,116	(11,191)	0	(11,191)	5,385	0	(1,302)	0	15,008	(11,191)
Policy Liabilities and Policy Account Balances	605,520	(19,265)	0	(19,265)	0	0	(180,775)	0	444,010	(19,265)
Variable annuity and variable life insurance contracts*7	605,520	(19,265)	0	(19,265)	0	0	(180,775)	0	444,010	(19,265)

- \*1 Principally, gains and losses from available-for-sale securities are included in Gains on investment securities and dividends , Write-downs of securities or Life insurance premiums and related investment income ; other securities are included in Gains on investment securities and dividends and derivative assets and liabilities (net) are included in Other (income) and expense, net and gains and losses from accounts payable are included in Other (income) and expense, net respectively. Additionally, for available-for-sale securities, amortization of interest recognized in finance revenues is included in these columns.
- \*2 Unrealized gains and losses from available-for-sale securities are included in Net change of unrealized gains (losses) on investment in securities and Net change of foreign currency translation adjustments. Additionally, unrealized gains and losses from other securities are included mainly in Net change of foreign currency translation adjustments.
- \*3 Increases resulting from an acquisition of a subsidiary and insurance contracts ceded to reinsurance companies are included.
- \*4 Decreases resulting from the receipts of reimbursements for benefits, and decreases resulting from insurance payouts to variable annuity and variable life policyholders due to death, surrender and maturity of the investment period are included. Due to the elapse of the computation period of the contingent consideration during fiscal 2016, the unsettled payment is included in a decrease of Accounts payable.
- \*5 The amount reported in Transfers in and/or out of Level 3 (net) is the fair value at the beginning of quarter during which the transfers occur.
- \*6 Included in earnings in the above table includes changes in the fair value of reinsurance contracts recorded in Life insurance costs and reinsurance premiums, net of reinsurance benefits received, recorded in Life insurance premiums and related investment income.
- \*7 Included in earnings in the above table is recorded in Life insurance costs and includes changes in the fair value of policy liabilities and policy account balances resulting from gains or losses on the underlying investment assets managed on behalf of variable annuity and variable life policyholders, and the changes in the minimum guarantee risks relating to variable annuity and variable life insurance contracts as well as insurance costs recognized for insurance and annuity payouts as a result of insured events.

In fiscal 2016, equity securities totaling ¥869 million were transferred from Level 3 to Level 2, since the inputs became observable.

There were no transfers in or out of Level 3 in fiscal 2017 and 2018.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## ORIX Corporation and Subsidiaries

The following tables present recorded amounts of assets measured at fair value on a nonrecurring basis as of March 31, 2017 and 2018. These assets are measured at fair value on a nonrecurring basis mainly to recognize impairment:

## March 31, 2017

	Millions of yen			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Real estate collateral-dependent loans (net of allowance for probable loan losses)	¥ 12,472	¥ 0	¥ 0	¥ 12,472
Investment in operating leases and property under facility operations	22,525	0	0	22,525
Certain investment in affiliates	15,726	0	0	15,726
	¥ 50,723	¥ 0	¥ 0	¥ 50,723

## March 31, 2018

	Millions of yen			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Real estate collateral-dependent loans (net of allowance for probable loan losses)	¥ 7,526	¥ 0	¥ 0	¥ 7,526
Investment in operating leases and property under facility operations	3,916	0	0	3,916

Certain investments in affiliates	11,730	0	0	11,730
	¥ 23,172	¥ 0	¥ 0	¥ 23,172

The following is a description of the valuation process and the main valuation methodologies used for assets and liabilities measured at fair value:

***Valuation process***

The Company and its subsidiaries determine fair value of Level 3 assets and liabilities by using valuation techniques, such as internally developed models, or using third-party pricing information. Internally developed models include the discounted cash flow methodologies and direct capitalization methodologies. To measure the fair value of the assets and liabilities, the Company and its subsidiaries select the valuation technique which best reflects the nature, characteristics and risks of each asset and liability. The appropriateness of valuation methods and unobservable inputs is verified when measuring fair values of the assets and liabilities by using internally

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

developed models. The Company and its subsidiaries also use third-party pricing information to measure the fair value of certain assets and liabilities. In that case, the Company and its subsidiaries verify the appropriateness of the prices by monitoring available information about the assets and liabilities, such as current conditions of the assets or liabilities, as well as surrounding market information. When these prices are determined to be able to reflect the nature, characteristics and risks of assets and liabilities reasonably, the Company and its subsidiaries use these prices as fair value of the assets and liabilities.

***Loans held for sale***

Certain loans, which the Company and its subsidiaries have the intent and ability to sell to outside parties in the foreseeable future, are considered held-for-sale. The loans held for sale in the Americas are classified as Level 2, because the Company and its subsidiaries measure their fair value based on a market approach using inputs other than quoted prices that are observable for the assets such as treasury rate, swap rate and market spread.

***Real estate collateral-dependent loans***

The valuation allowance for large balance non-homogeneous loans is individually 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 loans if the loans are collateral-dependent. According to ASC 820 ( Fair Value Measurement ), measurement for impaired loans determined using a present value technique is not considered a fair value measurement. However, measurement for impaired loans determined using the loan's observable market price or the fair value of the collateral securing the collateral-dependent loans are fair value measurements and are subject to the disclosure requirements for nonrecurring fair value measurements.

The Company and its subsidiaries determine the fair value of the real estate collateral of real estate collateral-dependent loans using appraisals prepared by independent third party appraisers or our own staff of qualified appraisers based on recent transactions involving sales of similar assets or other valuation techniques such as discounted cash flows methodologies using future cash flows estimated to be generated from operation of the existing assets or completion of development projects, as appropriate. The Company and its subsidiaries generally obtain a new appraisal once a fiscal year. In addition, the Company and its subsidiaries periodically monitor circumstances of the real estate collateral and then obtain a new appraisal in situations involving a significant change in economic and/or physical conditions, which may materially affect the fair value of the collateral. Real estate collateral-dependent loans whose fair values are estimated using appraisals of the underlying collateral based on these valuation techniques are classified as Level 3 because such appraisals involve unobservable inputs. These unobservable inputs contain discount rates and cap rates as well as future cash flows estimated to be generated from real estate collateral. An increase (decrease) in the discount rate or cap rate and a decrease (increase) in the estimated future cash flows would result in a decrease (increase) in the fair value of real estate collateral-dependent loans.

***Investment in operating leases and property under facility operations and land and buildings undeveloped or under construction***

Investment in operating leases measured at fair value is mostly real estate. The Company and its subsidiaries determine the fair value of investment in operating leases and property under facility operations and land and buildings undeveloped or under construction using 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 such as discounted cash flow methodologies using future cash flows estimated to be

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

generated from operation of the existing assets or completion of development projects, as appropriate. The Company and its subsidiaries classified the assets as Level 3 because such appraisals involve unobservable inputs. These unobservable inputs contain discount rates as well as future cash flows estimated to be generated from the assets or projects. An increase (decrease) in the discount rate and a decrease (increase) in the estimated future cash flows would result in a decrease (increase) in the fair value of investment in operating leases and property under facility operations and land and buildings undeveloped or under construction.

***Trading securities, Available-for-sale securities and Investment in affiliates***

If active market prices are available, fair value measurement is based on quoted active market prices and, accordingly, these securities are classified as Level 1. If active market prices are not available, fair value measurement is based on observable inputs other than quoted prices included within Level 1, such as prices for similar assets and accordingly these securities are classified as Level 2. If market prices are not available and there are no observable inputs, then fair value is estimated by using valuation models including discounted cash flow methodologies and broker quotes. Such securities are classified as Level 3, as the valuation models and broker quotes are based on inputs that are unobservable in the market. If fair value is based on broker quotes, the Company and its subsidiaries check the validity of received prices based on comparison to prices of other similar assets and market data such as relevant bench mark indices.

The Company and its subsidiaries classified CMBS and RMBS in the Americas and other asset-backed securities as Level 2 if the inputs such as trading price and/or bid price are observable. The Company and its subsidiaries classified CMBS and RMBS in the Americas and other asset-backed securities as Level 3 if the Company and subsidiaries evaluate the fair value based on the unobservable inputs. In determining whether the inputs are observable or unobservable, the Company and its subsidiaries evaluate various factors such as the lack of recent transactions, price quotations that are not based on current information or vary substantially over time or among market makers, a significant increase in implied risk premium, a wide bid-ask spread, significant decline in new issuances, little or no public information (e.g. a principal-to-principal market) and other factors. With respect to certain CMBS and RMBS in the Americas and other asset-backed securities, the Company and its subsidiaries judged that there has been increased overall trading activity, and the Company and its subsidiaries classified these securities as Level 2 for those securities that were measured at fair value based on the observable inputs such as trading price and/or bid price. But for those securities that lacked observable trades because they are older vintage or below investment grade securities, the Company and its subsidiaries limit the reliance on independent pricing service vendors and brokers. As a result, the Company and its subsidiaries established internally developed pricing models using valuation techniques such as discounted cash flow model using Level 3 inputs in order to estimate fair value of these securities and classified them as Level 3. Under the models, the Company and its subsidiaries use anticipated cash flows of the security discounted at a risk-adjusted discount rate that incorporates our estimate of credit risk and liquidity risk that a market participant would consider. The cash flows are estimated based on a number of assumptions such as default rate and prepayment speed, as well as seniority of the security. An increase (decrease) in the discount rate or default rate would result in a decrease (increase) in the fair value of CMBS and RMBS in the Americas and other asset-backed securities.

***Investment funds***



Certain subsidiaries elected the fair value option for investments in some funds. These investment funds for which the fair value option is elected are classified as Level 3, because the subsidiaries measure their fair value using discounting to net asset value based on inputs that are unobservable in the market. A certain subsidiary measures its investment held by the investment company which is owned by the subsidiary at fair value.

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

For exchange-traded derivatives, fair value is based on quoted market prices, and accordingly, classified as Level 1. For non-exchange traded derivatives, fair value is based on commonly used models and discounted cash flow methodologies. If the inputs used for these measurements including yield curves and volatilities, are observable, the Company and its subsidiaries classify it as Level 2. If the inputs are not observable, the Company and its subsidiaries classify it as Level 3. These unobservable inputs contain discount rates. An increase (decrease) in the discount rate would result in a decrease (increase) in the fair value of derivatives.

***Reinsurance recoverables***

Certain subsidiaries have elected the fair value option for certain reinsurance contracts related to variable annuity and variable life insurance contracts to partially offset the changes in fair value recognized in earnings of the policy liabilities and policy account balances attributable to the changes in the minimum guarantee risks of the variable annuity and variable life insurance contracts. These reinsurance contracts for which the fair value option is elected are classified as Level 3 because the subsidiaries measure their fair value using discounted cash flow methodologies based on inputs that are unobservable in the market.

***Contingent consideration***

The Company will be required to pay certain contingent consideration described in Note 3 Acquisitions and divestitures depending on the future performance of a certain asset management business of the acquired subsidiary, and the Company recognizes a liability for the contingent consideration at its estimated fair value. The fair value of the contingent consideration is classified as Level 3 because the Company measures its fair value using a Monte Carlo model based on inputs that are unobservable in the market.

***Variable annuity and variable life insurance contracts***

A certain subsidiary has elected the fair value option for the entire variable annuity and variable life insurance contracts held in order to match earnings recognized for changes in fair value of policy liabilities and policy account balances with the earnings recognized for gains or losses from the investment assets managed on behalf of variable annuity and variable life policyholders, derivative contracts and changes in fair value of reinsurance contracts. The changes in fair value of the variable annuity and variable life insurance contracts are linked to the fair value of the investment in securities managed on behalf of variable annuity and variable life policyholders. These securities consist mainly of equity securities traded in the market and are categorized as trading securities. In addition, variable annuity and variable life insurance contracts are exposed to the minimum guarantee risk, and the subsidiary adjusts the fair value of the underlying investments by incorporating changes in fair value of the minimum guarantee risk in the evaluation of the fair value of the entire variable annuity and variable life insurance contracts. The variable annuity and variable life insurance contracts for which the fair value option is elected are classified as Level 3 because the subsidiary measures the fair value using discounted cash flow methodologies based on inputs that are unobservable in the market.



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****ORIX Corporation and Subsidiaries****Information about Level 3 Fair Value Measurements**

The following tables provide information about the valuation techniques and significant unobservable inputs used in the valuation of Level 3 assets and liabilities measured at fair value on a recurring basis as of March 31, 2017 and 2018.

	Millions of yen Fair value	Valuation technique(s)	March 31, 2017 Significant unobservable inputs	Range (Weighted average)
Assets:				
Available-for-sale securities:				
Corporate debt securities				