ORIX CORP
Form 20-F
June 28, 2018
Table of Contents

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:

Title of each class	Name of each exchange on which registered
(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.

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.

Table of Contents

TABLE OF CONTENTS

Table of Contents

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 subsidia

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 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.

	Year ended March 31,				
	2014	2015	2016	2017	2018
	(Millions of yen)				
Income statement data*1*2:					
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

1

Table of Contents

	As of March 31,				
	2014	2015	2016	2017	2018
	(Millions of yen, except number of shares)				
Balance sheet data*[2]:					
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
Total Assets*[4]	¥ 9,063,517	¥ 11,439,874	¥ 10,992,918	¥ 11,231,895	¥ 11,425,982
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)				
Key ratios (%)*[6]:					
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*7	¥ 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*8	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*9	$ 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,

¥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.

Table of Contents

EXCHANGE RATES

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)				
Yen per dollar exchange rates:					
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
2017		
December	¥ 113.62	¥ 111.88
2018		
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

Table of Contents

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.

Table of Contents

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.

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 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.

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.

(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.

Table of Contents

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 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/ 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.

Table of Contents

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).

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.

14

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(1)	(%)	11.7	11.3	12.1
ROA(2)(3)	(%)	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.

Table of Contents

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.

	Years ended March 31,		
	2016	2017	2018
	(Millions of yen)		
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
Total segment profits	380,110	420,837	429,058
Difference between segment total and consolidated amounts	11,192	4,128	6,443
Total Consolidated Amounts	¥ 391,302	¥ 424,965	¥ 435,501

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,

Table of Contents

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.

17

Table of Contents

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

Table of Contents

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.

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 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.

Table of Contents

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.

Table of Contents

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.

	As of March 31, 2018	
	Book Value (Millions of yen)	**Land Space(1) (Thousands of m²)**
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

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

Table of Contents

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.

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

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.

Table of Contents

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.

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.

26

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.

Table of Contents

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

Table of Contents

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 *Authorité de controle prudential et de resolution* (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 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

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%.

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

Table of Contents

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:

	March 31, 2018			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Millions of yen)			
Financial Assets:				
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

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
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

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.

Table of Contents

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:

	March 31, 2018	
	Significant Unobservable Inputs (Level 3)	Percentage of Total Assets (%)
	(Millions of yen, except percentage data)	
Level 3 Assets:		
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
Total Level 3 financial assets	¥ 176,095	2
Total assets	¥ 11,425,982	100

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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;

Table of Contents

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.

Table of Contents

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.

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.

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.

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

*[1] Carrying amounts are stated as cost less accumulated depreciation.

*[2] 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:

Year Ended March 31, 2018		
Revenue*[1]	Expense*[2]	Net
(Millions of yen)		
¥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.

*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.

41

Table of Contents

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, 2017	Year ended March 31, 2018	Change Amount	Change 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

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	

42

Table of Contents

*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) (Long- and Short-term debt	1.7x	1.5x	(0.2)x	

(excluding deposits) / ORIX Corporation Shareholders Equity)

* ORIX Corporation Shareholders Equity ratio is the ratio as of the period end of ORIX Corporation Shareholder s 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.

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)			
Segment Revenues:				
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

Table of Contents

	Year ended March 31, 2017	Year ended March 31, 2018	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Segment Profits:				
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, 2017	As of March 31, 2018	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Segment Assets:				
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.

Table of Contents

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
Total Segment Revenues	102,979	115,712	12,733	12
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
Total Segment Expenses	68,013	68,723	710	1
Segment Operating Income	34,966	46,989	12,023	34
Equity in Net income (Loss) of Affiliates, and others	3,066	2,286	(780)	(25)
Segment Profits	¥ 38,032	¥ 49,275	¥ 11,243	30

	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

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
Total Segment Assets	¥ 1,032,152	¥ 961,901	¥ (70,251)	(7)

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.

46

Table of Contents

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
Total Segment Revenues	270,615	275,740	5,125	2
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
Total Segment Expenses	230,796	235,375	4,579	2
Segment Operating Income	39,819	40,365	546	1

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

47

Table of Contents

	As of March 31, 2017	As of March 31, 2018	Change Amount	Change 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	
Total Segment Assets	¥ 752,513	¥ 818,201	¥ 65,688	9

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.

Table of Contents

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)
Total Segment Revenues	212,050	172,948	(39,102)	(18)
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
Total Segment Expenses	143,100	143,179	79	0
Segment Operating Income	68,950	29,769	(39,181)	(57)
Equity in Net income (Loss) of Affiliates, and others	3,891	32,603	28,712	738
Segment Profits	¥ 72,841	¥ 62,372	¥ (10,469)	(14)

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
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)
Total Segment Assets	¥ 657,701	¥ 620,238	¥ (37,463)	(6)

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 a 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

Table of Contents

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
Total Segment Revenues	1,271,973	1,402,313	130,340	10
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
Total Segment Expenses	1,224,311	1,350,114	125,803	10
Segment Operating Income	47,662	52,199	4,537	10
Equity in Net income (Loss) of Affiliates, and others	37,338	43,921	6,583	18
Segment Profits	¥ 85,000	¥ 96,120	¥ 11,120	13

Table of Contents

	As of March 31, 2017	As of March 31, 2018	Change Amount	Change 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
Total Segment Assets	¥ 768,675	¥ 847,677	¥ 79,002	10

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.

Table of Contents

	Year ended March 31, 2017	Year ended March 31, 2018	Change Amount	Change 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, 2017	As of March 31, 2018	Change Amount	Change 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.

Table of Contents

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)
Total Segment Revenues	458,912	477,420	18,508	4
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)
Total Segment Expenses	386,774	380,767	(6,007)	(2)
Segment Operating Income	72,138	96,653	24,515	34
Equity in Net income (Loss) of Affiliates, and others	40,174	9,949	(30,225)	(75)
Segment Profits	¥ 112,312	¥ 106,602	¥ (5,710)	(5)

	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

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
Total Segment Assets	¥2,454,200	¥2,594,728	¥ 140,528	6

53

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 March 31,		Change	
	2017	2018	Amount	Percent (%)
	(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)			

Investment in direct financing leases by category:							
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)			
Installment loans:				
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)			
Installment loans:				
Consumer borrowers in Japan				
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
Corporate borrowers in Japan				
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)
Subtotal	606,892	533,323	(73,569)	(12)
Purchased loans*	24,795	18,933	(5,862)	(24)
Total	¥ 2,815,706	¥ 2,823,769	¥ 8,063	0

* 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.

Table of Contents

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

	As of March 31, 2017	As of March 31, 2018
	(Millions of yen, except percentage data)	
90+ days past-due direct financing leases and allowances for direct financing leases:		
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

	As of March 31, 2017	2018
	(Millions of yen, except percentage data)	
90+ days past-due loans and allowance for installment loans:		
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 significancy increased ¥3,026 million to ¥12,748 million as of March 31, 2018 compared to March 31, 2017.

	As of March 31, 2017	2018
	(Millions of yen)	
90+ days past-due loans not individually evaluated for impairment:		
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

	As of March 31, 2017	As of March 31, 2018
	(Millions of yen)	
Loans individually evaluated for impairment:		
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.

	As of March 31, 2017	As of March 31, 2018
	(Millions of yen)	
Impaired loans:		
Consumer borrowers in Japan		
Housing loans	¥ 4,243	¥ 3,544
Card loans	4,102	4,060
Other	7,903	11,082
Subtotal	16,248	18,686
Corporate borrowers in Japan		
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
Overseas		
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.

	As of March 31,		Change	
	2017	2018	Amount	Percent (
	(Millions of yen, except percentage data)			
Provision for doubtful receivables on direct financing leases and probable loan losses:				
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

	As of and for the year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in securities:				
New securities added	¥ 489,357	¥ 439,383	¥ (49,974)	(10)

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

Table of Contents

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)			
Investment in securities by security type:				
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)			
Gains on investment securities and dividends:				
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.

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

Operating leases

	As of and for the year ended March 31, 2017	2018	Change Amount	Percent (%)
	(Millions of yen, except percentage data)			
Operating leases:				
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, 2017	2018	Change Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in operating leases by category:				
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
Total	¥ 1,313,164	¥ 1,344,926	¥ 31,762	2

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

Table of Contents

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

	Year ended March 31, 2017	2018	Change Amount	Percent (%)
	(Millions of yen, except percentage data)			
Life insurance premiums and related investment income and life insurance costs:				
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, 2017	2018	Change Amount	Percent (%)
	(Millions of yen, except percentage data)			
Breakdown of life insurance-related investment income (loss):				
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.

62

	As of March 31, 2017	As of March 31, 2018	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Investments by life insurance operations:				
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
Total investment in securities	1,243,770	998,855	(244,915)	(20)
Installment loans, real estate under operating leases and other investments	58,215	52,080	(6,135)	(11)
Total	¥ 1,301,985	¥ 1,050,935	¥ (251,050)	(19)

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, 2017	Year ended March 31, 2018	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Sales of goods and real estate, Inventories:				
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 March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Services, Property under Facility Operations				
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.

64

Table of Contents

Selling, general and administrative expenses

	Year ended March 31, 2017	Year ended March 31, 2018	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Selling, general and administrative expenses:				
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)			
otal revenues	¥ 2,369,202	¥ 2,678,659	¥ 309,457	13
otal expenses	2,081,461	2,349,435	267,974	13
ncome before Income axes	391,302	424,965	33,663	9
et Income Attributable to RIX Corporation hareholders	260,169	273,239	13,070	5
arnings per Share (Basic)	198.73	208.88	10.15	5
Diluted)	198.52	208.68	10.16	5
OE*1	11.7	11.3	(0.4)	
OA*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.

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*[1]	¥ 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)*[1]	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*[2]	21.0%	22.3%	1.3%	
D/E ratio (Debt-to-equity ratio) (Long- and Short-term debt (excluding deposits) / ORIX Corporation Shareholders Equity)*[1]	1.9x	1.7x	(0.2)x	

*[1] 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 Shareholder s 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)			
Segment Revenues:				
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

Table of Contents

	Year ended March 31, 2016	Year ended March 31, 2017	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Segment Profits:				
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, 2016	As of March 31, 2017	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Segment Assets:				
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.

Table of Contents

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, 2016	Year ended March 31, 2017	Change Amount	Change 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)
Total Segment Revenues	107,150	102,979	(4,171)	(4)
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
Total Segment Expenses	65,506	68,013	2,507	4
Segment Operating Income	41,644	34,966	(6,678)	(16)
Equity in Net income (Loss) of Affiliates, and others	774	3,066	2,292	296
Segment Profits	¥ 42,418	¥ 38,032	¥ (4,386)	(10)

	As of March 31, 2016	As of March 31, 2017	Change Amount	Change 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)
Total Segment Assets	¥ 1,049,867	¥ 1,032,152	¥ (17,715)	(2)

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.

Table of Contents

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, 2016	Year ended March 31, 2017	Change Amount	Change 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
Total Segment Revenues	271,662	270,615	(1,047)	(0)
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
Total Segment Expenses	228,720	230,796	2,076	1
Segment Operating Income	42,942	39,819	(3,123)	(7)
Equity in Net income (Loss) of Affiliates, and others	(7)	(32)	(25)	
Segment Profits	¥ 42,935	¥ 39,787	¥ (3,148)	(7)

	As of March 31, 2016	As of March 31, 2017	Change Amount	Change 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)
Total Segment Assets	¥731,329	¥752,513	¥ 21,184	3

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.

Table of Contents

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)
Total Segment Revenues	191,540	212,050	20,510	11
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)
Total Segment Expenses	154,623	143,100	(11,523)	(7)
Segment Operating Income	36,917	68,950	32,033	87
Equity in Net income (Loss) of Affiliates, and others	5,985	3,891	(2,094)	(35)
Segment Profits	¥ 42,902	¥ 72,841	¥ 29,939	70

	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)

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.

Table of Contents

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
Total Segment Revenues	1,028,355	1,271,973	243,618	24
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
Total Segment Expenses	983,236	1,224,311	241,075	25
Segment Operating Income	45,119	47,662	2,543	6
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

73

Table of Contents

	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
Total Segment Assets	¥ 704,156	¥ 768,675	¥ 64,519	9

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.

Table of Contents

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)

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.

Table of Contents

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, 2016	As of March 31, 2017	Change Amount	Change 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)
Total Segment Assets	¥ 2,284,733	¥ 2,454,200	¥ 169,467	7

76

Table of Contents

Revenues, New Business Volumes and Investments

Finance revenues

	Year ended March 31, 2016	Year ended March 31, 2017	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues:				
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 March 31, 2016	As of and for the year ended March 31, 2017	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Direct financing leases:				
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, 2016	As of March 31, 2017	Change Amount	Change Percent (%)

	(Millions of yen, except percentage data)			
Investment in direct financing leases by category:				
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)
Total	¥ 1,190,136	¥ 1,204,024	¥ 13,888	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	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Installment loans:				
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,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Installment loans:				
Consumer borrowers in Japan				
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
Corporate borrowers in Japan				
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
Overseas							
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.

Table of Contents

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

	As of March 31, 2016	As of March 31, 2017
	(Millions of yen, except percentage data)	
90+ days past-due direct financing leases and allowances for direct financing leases:		
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

	As of March 31, 2016	As of March 31, 2017
	(Millions of yen, except percentage data)	
90+ days past-due loans and allowance for installment loans:		
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 significancy increased ¥1,544 million to ¥9,722 million as of March 31, 2017 compared to March 31, 2016.

	As of March 31, 2016	As of March 31, 2017
	(Millions of yen)	
90+ days past-due loans not individually evaluated for impairment:		
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
Total	¥	8,178	¥	9,722

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

	As of March 31,			
		2016		**2017**
	(Millions of yen)			
Loans individually evaluated for impairment:				
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

80

Table of Contents

* 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.

	As of March 31,	
	2016	2017
	(Millions of yen)	
Impaired loans:		
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	Percen
	(Millions of yen, except percentage data)			
sion for doubtful receivables on direct financing leases and probable loan losses:				
ning balance	¥ 72,326	¥ 60,071	¥ (12,255)	
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)	
ion (reversal)	11,717	22,667	10,950	
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	
e-offs (net)	(17,504)	(21,822)	(4,318)	
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	
*	(6,468)	(1,689)	4,779	
financing leases	(549)	(159)	390	
not individually evaluated for impairment	31	(1,694)	(1,725)	
individually evaluated for impairment	(5,950)	164	6,114	
g balance	60,071	59,227	(844)	
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 March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in securities:				

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 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)			
Investment in securities by security type:				
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 March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Gains on investment securities and dividends:				
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, 2016	2017	Change Amount	Percent (%)
	(Millions of yen, except percentage data)			
Operating leases:				
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, 2016	2017	Change Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in operating leases by category:				
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)
Total	¥ 1,349,199	¥ 1,313,164	¥ (36,035)	(3)

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

	Year ended March 31, 2016	Year ended March 31, 2017	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Life insurance premiums and related investment income and life insurance costs:				
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, 2016	Year ended March 31, 2017	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Breakdown of life insurance-related investment income (loss):				
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.

Table of Contents

	As of March 31, 2016	As of March 31, 2017	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Investments by life insurance operations:				
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	
Total investment in securities	1,549,059	1,243,770	(305,289)	(20)
Installment loans, real estate under operating leases and other investments	69,020	58,215	(10,805)	(16)
Total	¥ 1,618,079	¥ 1,301,985	¥ (316,094)	(20)

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, 2016	Year ended March 31, 2017	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Sales of goods and real estate, Inventories:				
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.

86

Table of Contents

Services, Property under Facility Operations

	As of and for the year ended March 31, 2016	As of and for the year ended March 31, 2017	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Services, Property under Facility Operations				
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 March 31,		Change	
	2016	2017	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Selling, general and administrative expenses:				
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.

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 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.

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, 2017	As of March 31, 2018	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Short-term debt:				
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, 2017	As of March 31, 2018	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Long-term debt:				
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.

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.

	Total	Within 1 year	1-3 years	3-5 years	After 5 years
	Amount of commitment expiration per period (Millions of yen)				
Commitments:					
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				
	Total	Within 1 year	1-3 years	3-5 years	After 5 years
			(Millions of yen)		
Contractual cash obligations:					
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
Interest rate swaps:					
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.

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 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.

Table of Contents

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.

99

Table of Contents

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.

100

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.

Table of Contents

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 deteriorate 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-subsidiary 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 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

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 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

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.

109

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.

	Nominating Committee	Audit Committee	Compensation Committee
Members as of June 28, 2018	5 Members (Outside Directors: 5) Nobuaki Usui (Chairperson) Robert Feldman Takeshi Niinami Ryuji Yasuda Heizo Takenaka	4 Members (Outside Directors: 4) Eiko Tsujiyama (Chairperson) Nobuaki Usui Ryuji Yasuda Heizo Takenaka	4 Members (Outside Directors: 4) Robert Feldman (Chairperson) Eiko Tsujiyama Takeshi Niinami Ryuji Yasuda
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

110

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

111

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

112

Table of Contents

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

Table of Contents

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:

Name (Date of birth)	Current positions and principal outside positions[(1)]		Business experience	Shareholdings as of June 28, 2018
Makoto Inoue (Oct. 2, 1952)	Director, Representative Executive Officer, President and Chief Executive Officer, Responsible for Group Strategy Business Unit	Apr. 1975	Joined the Company	75,265
		Jan. 2003	Deputy Head of Investment Banking Headquarters	
		Feb. 2005	Assumed office of Executive Officer, the Company	
		Jan. 2006	Assumed office of Managing Executive Officer, the Company	
		Jun. 2009	Assumed office of Senior Managing Executive Officer, the Company	
		Jun. 2010	Assumed office of Director, Deputy President, the Company	
		Jan. 2011	Assumed office of Representative Executive Officer, President, the Company Chief Operating Officer	
		Jan. 2014	Co-Chief Executive Officer	
		Jun. 2014	Chief Executive Officer	
		Jan. 2017	Responsible for Group IoT Business Department, Responsible for New Business Development Department I and II	
		Apr. 2017	Responsible for New Business Development	
		May 2017	Responsible for Open Innovation Business Department	
		Jan. 2018	Responsible for Group Strategy Business Unit	
Yuichi Nishigori (Jan. 28, 1957)	Director, Senior Managing Executive Officer, Head of Energy and Eco Services Business Headquarters	Apr. 1980	Joined The Industrial Bank of Japan, Limited (currently, Mizuho Bank, Ltd.)	15,924
		Apr. 2003	Joined the Company	
		Jan. 2007	Deputy Head of Alternative Investment and Development Headquarters	
		Jan. 2009	Assumed office of Executive Officer, the Company	

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

Table of Contents

Name (Date of birth)	Current positions and principal outside positions(1)		Business experience	Shareholdings as of June 28, 2018
		Sep. 2015	Assumed office of Director, Ubiteq, INC.	
		Jan. 2016	Assumed office of Director, Senior Managing Executive Officer, the Company	
Kiyoshi Fushitani (Nov. 22, 1950)	Director, Senior Managing Executive Officer Head of Global Business Headquarters Head of East Asia Business Headquarters Head of Global Transportation Services Headquarters	Apr. 1973	Joined The Sumitomo Bank, Limited (currently Sumitomo Mitsui Banking Corporation)	1,500
		Feb. 1975	Joined the Company	
		Sep. 2012	Deputy Head of Global Business and Alternative Investment Headquarters	
		Jan. 2015	Assumed office of Managing Executive Officer, the Company Head of Global Transportation Services Headquarters	
		Jun. 2015	Head of East Asia Business Headquarters	
		Jan. 2016	Assumed office of Senior Managing Executive Officer, the Company Head of Global Business Headquarters	
		Jun. 2016	Assumed office of Director, Senior Managing Executive Officer, the Company	

116

Table of Contents

Name (Date of birth)	Current positions and principal outside positions(1)		Business experience	Shareholdings as of June 28, 2018
Stan Koyanagi	Director,	Oct. 1985	Joined SHEPPARD, MULLIN, RICHTER & HAMPTON LLP	0
(Dec. 25, 1960)	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	Director,	May 2001	Joined Mizuho Securities CO., Ltd.	2,048
(Mar. 14, 1963)	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

Table of Contents

Name (Date of birth)	Current positions and principal outside positions[1]		Business experience	Shareholdings as of June 28, 2018
Hitomaro Yano (Jul. 25, 1962)	Director, Executive Officer Head of Treasury and Accounting Headquarters	Apr. 1985	Joined Seibu Department Stores, Limited (currently Sogo & Seibu Co., Ltd.)	5,100
		Jun. 1989	Joined the Company	
		Jan. 2016	Deputy Head of Treasury Headquarters	
		Jan. 2017	Assumed office of Executive Officer, the Company	
		Jun. 2017	Deputy Head of Treasury and Accounting Headquarters	
		Jan. 2018	Head of Treasury and Accounting Headquarters	
		Jun. 2018	Assumed office of Director, Executive Office, the Company	
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	Certified Public Accountant	0
		Aug. 1980	Assistant Professor, College of Humanities at Ibaraki University	
		Apr. 1985	Assistant Professor, School of Economics at Musashi University	
		Apr. 1991	Professor, School of Economics at Musashi University	
		Apr. 1996	Assumed office of Dean, School of Economics at Musashi University	
		Apr. 2003	Professor, School of Commerce and the Graduate School of Commerce at Waseda University	
		Sep. 2004	Professor, Faculty of Commerce at Waseda University	
		Jun. 2010	Assumed office of Outside Director, the Company	
		Sep. 2010	Assumed office of Dean, Graduate School of Commerce at Waseda University	
		May 2011	Assumed office of Corporate Auditor, Lawson, Inc.	
		Jun. 2011	Assumed office of Audit & Supervisory Board Member, NTT DOCOMO, Inc.	
		Jun. 2012	Assumed office of Audit & Supervisory Board Member, Shiseido Company, Limited	

Apr. 2018 Emeritus Professor, Waseda University

Table of Contents

Name (Date of birth)	Current positions and principal outside positions[1]		Business experience	Shareholdings as of June 28, 2018
Robert Feldman (Jun. 12, 1953)	Outside Director Senior Advisor, Morgan Stanley MUFG Securities Co., Ltd. Professor, Graduate School of Management and Innovation Studies at Tokyo University of Science	Oct. 1983	Economist, International Monetary Fund	0
		May 1989	Chief Economist, Salomon Brothers Inc. (currently Citigroup Global Markets Japan Inc.)	
		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 President and Chief Executive Officer, Member of the Board, Representative Director, Suntory Holdings Limited.	Jun. 1995	Assumed office of President, Sodex Corporation (currently LEOC Co., Ltd.)	0
		Apr. 2001	Unit Manager, Lawson Business and Mitsubishi s Dining Logistical Planning team, Consumer Industry division, Mitsubishi Corporation	
		May 2002	Assumed office of President, Representative Director and Executive	

Officer, Lawson, Inc.

119

Table of Contents

Name (Date of birth)	Current positions and principal outside positions[(1)]	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.	
			Assumed office of Chairman and Member of the Board, Lawson, Inc.	
		Oct. 2014	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.	

Table of Contents

Name (Date of birth)	Current positions and principal outside positions[1]		Business experience	Shareholdings as of June 28, 2018
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	0
		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.	
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	0
		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	

Outside Director, SBI Holdings, Inc.		
	Dec. 2006	Assumed office of Director, Academyhills
	Aug. 2009	Assumed office of Chairman and Director, PASONA Group Inc.

121

Table of Contents

Name (Date of birth)	Current positions and principal outside positions(1)		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:

Name	Title	Areas of duties	Shareholdings as of June 28, 2018
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 Eastern Japan Sales Headquarters	7,648
Shinichi Obara	Executive Officer	Western Japan Sales Headquarters Group Kansai Representative	10,049
Harukazu Yamaguchi	Executive Officer	Global Business Headquarters	3,654
Toshinari Fukaya	Executive Officer	Real Estate Headquarters Finance and Investment Department	4,200
Yasuaki Mikami	Executive Officer	Group Human Resources and Corporate Administration Headquarters Secretariat of The Board of Directors Work Style Reform Project	1,158
Yoshiteru Suzuki	Executive Officer	Deputy President, ORIX Corporation USA	0
Yoshiko Fujii	Executive Officer	Enterprise Risk Management Headquarters	6,000
Katsunobu Kamei	Group Senior Managing Executive	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 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.

Table of Contents

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

125

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.

Table of Contents

** 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.

127

Table of Contents

STOCK OPTION PLAN

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:

	Shares granted	Exercise price per Share	Option expiration date
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.

Name	Number of Shares held (Thousands)	Percentage of Issued shares (%)
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

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

128

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 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 (¥)