ORIX CORP
Form 6-K
August 13, 2018
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

For the month of August 2018.

Commission File Number: 001-14856

ORIX Corporation

(Translation of Registrant s Name into English)

World Trade Center Bldg., 2-4-1 Hamamatsu-cho, Minato-ku,

Tokyo, JAPAN

(Address of Principal Executive Offices)

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

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

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Table of Document(s) Submitted

1. This is an English translation of ORIX Corporation s quarterly financial report (*shihanki houkokusho*) as filed with the Kanto Financial Bureau in Japan on August 13, 2018, which includes unaudited consolidated financial information prepared in accordance with generally accepted accounting principles in the United States for the three months ended June 30, 2017 and 2018.

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SIGNATURES

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

	ORIX Corporation
Date: August 13, 2018	By /s/ HITOMARO YANO Hitomaro Yano Director, Executive Officer ORIX Corporation

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CONSOLIDATED FINANCIAL INFORMATION

Notes to Translation

1. The following is an English translation of ORIX Corporation s quarterly financial report (*shihanki houkokusho*) as filed with the Kanto Financial Bureau in Japan on August 13, 2018, which includes unaudited consolidated financial information prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for the three months ended June 30, 2017 and 2018.

2. Significant differences between U.S. GAAP and generally accepted accounting principles in Japan (Japanese GAAP) are stated in Note 1 Overview of Accounting Principles Utilized of the notes to Consolidated Financial Statements.

In preparing its consolidated financial information, ORIX Corporation (the Company) and its subsidiaries have complied with U.S. GAAP.

This document may contain forward-looking statements about expected future events and financial results that involve risks and uncertainties. Such statements are based on the Company s current expectations and are subject to uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause such a difference include, but are not limited to, those described under Risk Factors in the Company s most recent annual report on Form 20-F filed with the U.S. Securities and Exchange Commission.

The Company believes that it may have been a passive foreign investment company for U.S. federal income tax purposes in the year to which these consolidated financial results relate by reason of the composition of its assets and the nature of its income. In addition, the Company may be a PFIC for the foreseeable future. Assuming that the Company is a PFIC, a U.S. holder of the shares or ADSs of the Company will be subject to special rules generally intended to eliminate any benefits from the deferral of U.S. federal income tax that a holder could derive from investing in a foreign corporation that does not distribute all of its earnings on a current basis. Investors should consult their tax advisors with respect to such rules, which are summarized in the Company s annual report.

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1. Information on the Company and its Subsidiaries

(1) Consolidated Financial Highlights

	Millions of yen (except for per share amounts and ratios)		
	Three months ended June 30, 2017	Three months ended June 30, 2018	Fiscal year ended March 31, 2018
Total revenues	¥ 792,297	¥ 603,917	¥ 2,862,771
Income before income taxes	135,611	110,954	435,501
Net income attributable to ORIX Corporation shareholders	89,712	79,947	313,135
Comprehensive Income attributable to ORIX Corporation shareholders	94,298	75,118	288,148
ORIX Corporation shareholders equity	2,525,334	2,712,205	2,682,424
Total assets	11,317,946	11,371,902	11,425,982
Earnings per share for net income attributable to ORIX Corporation shareholders			
Basic (yen)	69.81	62.46	244.40
Diluted (yen)	69.76	62.41	244.15
ORIX Corporation shareholders equity ratio (%)	22.3	23.9	23.5
Cash flows from operating activities	88,887	97,264	568,791
Cash flows from investing activities	2,180	3,570	(439,120)
Cash flows from financing activities	68,896	(180,123)	141,010
Cash, Cash Equivalents and Restricted Cash at end of Period	1,297,755	1,326,933	1,405,117

Notes: 1. Consumption tax is excluded from the stated amount of total revenues.

2. Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2016-18 (Restricted Cash ASC 230 (Statement of Cash Flows)) on April 1, 2018.

3. Accounting Standards Update 2014-09 (Revenue from Contracts with Customers ASC 606 (Revenue from Contracts with Customers)), Accounting Standards Update 2016-01 (Recognition and Measurement of Financial Assets and Financial Liabilities ASC 825-10 (Financial Instruments Overall)) and Accounting Standards Update 2016-16 (Intra-Entity Transfers of Assets Other Than Inventory ASC 740 (Income Taxes)) have been adopted on April 1, 2018. For further information, see Note 2 Significant Accounting and Reporting Policies (af) New accounting pronouncements.

(2) Overview of Activities

During the three months ended June 30, 2018, no significant changes were made in the Company and its subsidiaries operations. Additionally, there were no changes of principal subsidiaries and affiliates.

2. Risk Factors

Investing in the Company s securities involves risks. You should carefully consider the information described herein as well as the risks described under Risk Factors in our Form 20-F for the fiscal year ended March 31, 2018 and the other information in that annual report, including, but not limited to, the Company s consolidated financial statements and related notes and Item 11. Quantitative and Qualitative Disclosures about Market Risk. The Company s business activities, financial condition and results of operations and the trading prices of the Company s securities could be adversely affected by any of those factors or other factors.

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3. Analysis of Financial Results and Condition

The following discussion provides management s explanation of factors and events that have significantly affected the Company s financial condition and results of operations. Also included is management s assessment of factors and trends that could have a material effect on the Company s financial condition and results of operations in the future. However, please be advised that financial conditions and results of operations in the future may also be affected by factors other than those discussed herein. These factors and trends regarding the future were assessed as of the issue date of this quarterly financial report *(shihanki houkokusho).*

(1) Qualitative Information Regarding Consolidated Financial Results

Financial Highlights

Financial Results for the Three Months Ended June 30, 2018

Total revenues	¥603,917 million (Down 24% year on year)
Total expenses	¥511,922 million (Down 27% year on year)
Income before income taxes	¥110,954 million (Down 18% year on year)
Net income attributable to ORIX Corporation Shareholders	¥79,947 million (Down 11% year on year)
Earnings per share for net income attributable to ORIX Corporation Shareholders	
(Basic)	¥62.46 (Down 11% year on year)
(Diluted)	¥62.41 (Down 11% year on year)
ROE (Annualized) *1	11.9% (14.3% during the same period in the previous fiscal year)
ROA (Annualized) *2	2.81% (3.18% during the same period in the previous fiscal year)

*1 ROE is the ratio of net income attributable to ORIX Corporation Shareholders for the period to average ORIX Corporation Shareholders Equity.

*2 ROA is the ratio of net income attributable to ORIX Corporation Shareholders for the period to average Total Assets.

Total revenues for the three months ended June 30, 2018 decreased 24% to ¥603,917 million compared to ¥792,297 million during the same period of the previous fiscal year. Despite an increase in life insurance premiums in line with an increase in in-force policies, life insurance premiums and related investment income in the life insurance business decreased due to a decrease in investment income from assets under variable annuity and variable life insurance contracts, as compared to the same period of the previous fiscal year during which period market conditions had improved significantly. In addition, sales of goods and real estate decreased due primarily to decreasing revenues generated by subsidiaries in the principal investment business. On the other hand, services income increased due primarily to large gains from sales of property under facility operations, and increasing revenues generated by subsidiaries in the principal investment business.

Total expenses decreased 27% to ¥511,922 million compared to ¥700,317 million during the same period of the previous fiscal year. Costs of goods and real estate sold and life insurance costs decreased in line with the aforementioned decreased revenues. In addition, services expense increased in line with the aforementioned increased revenues.

Equity in net income of affiliates decreased mainly due to the recognition of significant gains on sales of investments in real estate joint ventures compared to the same period of the previous fiscal year.

As a result of the foregoing, income before income taxes for the three months ended June 30, 2018 decreased 18% to ¥110,954 million compared to ¥135,611 million during the same period of the previous fiscal year, and net income attributable to ORIX Corporation shareholders decreased 11% to ¥79,947 million compared to ¥89,712 million during the same period of the previous fiscal year.

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Segment Information

Total revenues and profits by segment for the three months ended June 30, 2017 and 2018 are as follows:

	Millions of yen							
	Three months ended June 30, 2017		Three months ended June 30, 2018		Change (revenues)		Change (profits)	
	Segment Revenues	Segment Profits	Segment Revenues	Segment Profits	Amount	Percent (%)	Amount	Percent (%)
Corporate Financial Services	¥ 25,456	¥ 10,225	¥ 25,004	¥ 7,820	¥ (452)	(2)	¥ (2,405)	(24)
Maintenance Leasing	68,346	9,894	69,858	9,696	1,512	2	(198)	(2)
Real Estate	46,520	32,833	54,524	22,219	8,004	17	(10,614)	(32)
Investment and Operation	422,557	16,657	234,518	11,905	(188,039)	(45)	(4,752)	(29)
Retail	112,597	22,014	102,815	21,785	(9,782)	(9)	(229)	(1)
Overseas Business	117,032	42,799	118,479	40,006	1,447	1	(2,793)	(7)
Total	792,508	134,422	605,198	113,431	(187,310)	(24)	(20,991)	(16)
Difference between Segment Total and Consolidated Amounts	(211)	1,189	(1,281)	(2,477)	(1,070)		(3,666)	
Total Consolidated Amounts	¥ 792,297	¥ 135,611	¥ 603,917	¥ 110,954	¥ (188,380)	(24)	¥ (24,657)	(18)

Total assets by segment as of March 31, 2018 and June 30, 2018 are as follows:

	Millions of yen					
	March 31, 2018		June 30, 2018		Change	
	Segment Assets	Composition ratio (%)	Segment Assets	Composition ratio (%)	Amount	Percent (%)
Corporate Financial Services	¥ 991,818	9	¥ 976,117	8	¥ (15,701)	(2)
Maintenance Leasing	847,190	7	855,286	8	8,096	1
Real Estate	620,238	5	598,140	5	(22,098)	(4)
Investment and Operation	856,348	8	876,811	8	20,463	2
Retail	3,174,505	28	3,236,630	28	62,125	2
Overseas Business	2,608,819	23	2,574,171	23	(34,648)	(1)
Total	9,098,918	80	9,117,155	80	18,237	0
Difference between Segment Total and Consolidated Amounts	2,327,064	20	2,254,747	20	(72,317)	(3)

Total Consolidated Amounts	¥ 11,425,982	100	¥ 11,371,902	100	¥ (54,080)	(0)

Certain line items presented in the consolidated statements of income have been changed starting from the three months ended June 30, 2018. For further information, see Note 2 Significant Accounting and Reporting Policies (ag) Reclassifications.

From the three months ended June 30, 2018, consolidated variable interest entities for securitizing financial assets such as direct financing lease receivable and loan receivable, which had been excluded from segment revenues, segment profits and segment assets until the previous fiscal year, are included in segment revenues, segment profits and segment assets of each segment. As a result of this change, the presented amounts in the financial information of the segments for the previous fiscal year have been retrospectively reclassified to conform to the presentation for the three months ended June 30, 2018.

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Segment information for the three months ended June 30, 2018 is as follows:

Corporate Financial Services Segment: 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 Co., Ltd., a software service provider in the group, and by utilizing domestic network to create new businesses.

Based on the aforementioned strategy, segment revenues decreased 2% to ¥25,004 million compared to ¥25,456 million during the same period of the previous fiscal year due to a decrease in finance revenues from decreases in average investment balance in direct financing leases and installment loans despite an increase in services income resulting from our stable fee businesses provided to domestic small- and medium-sized enterprise customers.

Segment expenses decreased due to a decrease in selling, general and administrative expenses.

As a result of the foregoing and due to the recognition of gains on sales of subsidiaries and affiliates during the same period of the previous fiscal year, segment profits decreased 24% to ¥7,820 million compared to ¥10,225 million during the same period of the previous fiscal year.

Segment assets decreased 2% to ¥976,117 million compared to the end of the previous fiscal year due to decreases in investment in direct financing leases and installment loans.

Although asset efficiency decreased compared to the same period of the previous fiscal year, stable profit from fee businesses increased due to more variety of services. Furthermore, to explore new business areas, we have also built a new domestic distribution network of fruits and vegetables and have engaged in online lending service for small businesses.

	Three months ended June 30, 2017	Three months ended June 30, 2018	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Segment Revenues:				
Finance revenues	¥ 8,609	¥ 7,712	¥ (897)	(10)
Operating leases	5,740	6,012	272	5
Services income	9,078	10,005	927	10
Sales of goods and real estate, and other	2,029	1,275	(754)	(37)
Total Segment Revenues	25,456	25,004	(452)	(2)
Segment Expenses:				

Interest expense	1,392	1,109	(283)	(20)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	94	246	152	162
Other	15,833	15,680	(153)	(1)
Total Segment Expenses	17,319	17,035	(284)	(2)
Segment Operating Income	8,137	7,969	(168)	(2)
Equity in Net income (Loss) of Affiliates, and others	2,088	(149)	(2,237)	
Segment Profits	¥ 10,225	¥ 7,820	¥ (2,405)	(24)

	As of March 31, 2018	As of June 30, 2018	Change	
			Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 439,329	¥ 433,525	¥ (5,804)	(1)
Installment loans	369,882	364,505	(5,377)	(1)
Investment in operating leases	26,350	26,299	(51)	(0)
Investment in securities	19,208	15,422	(3,786)	(20)
Property under facility operations	15,075	15,256	181	1
Inventories	49	44	(5)	(10)
Advances for investment in operating leases	203	97	(106)	(52)
Investment in affiliates	16,845	16,674	(171)	(1)
Advances for property under facility operations	720	631	(89)	(12)
Goodwill and other intangible assets acquired in business combinations	104,157	103,664	(493)	(0)
Total Segment Assets	¥ 991,818	¥ 976,117	¥ (15,701)	(2)

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Maintenance Leasing Segment: Automobile leasing and rentals, car sharing, and test and measurement instruments and IT-related equipment rentals and leasing

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 ¥69,858 million compared to ¥68,346 million during the same period of the previous fiscal year due to an increase in operating leases revenues.

Segment expenses increased in line with the aforementioned revenue increases.

As a result of the foregoing, segment profits decreased 2% to ¥9,696 million compared to ¥9,894 million during the same period of the previous fiscal year.

Segment assets increased 1% to ¥855,286 million compared to the end of the previous fiscal year due to an increase of new executions in investment in operating leases.

In the auto-related business, the gain on sales of used cars decreased while assets increased as a result of a steady number of new auto-leases being executed. Although asset efficiency decreased compared to the same period of the previous fiscal year due to this reason, we have maintained stable profitability.

	Three months ended June 30, 2017	Three months ended June 30, 2018	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Segment Revenues:				
Finance revenues	¥ 3,596	¥ 3,439	¥ (157)	(4)
Operating leases	46,382	47,915	1,533	3
Services income	17,322	17,422	100	1
Sales of goods and real estate, and other	1,046	1,082	36	3
Total Segment Revenues	68,346	69,858	1,512	2
Segment Expenses:				
Interest expense	852	812	(40)	(5)
Provision for doubtful receivables and probable loan losses and write-downs of	69	53	(16)	(23)

long-lived assets and securities				
Other	57,310	59,279	1,969	3
Total Segment Expenses	58,231	60,144	1,913	3
Segment Operating Income	10,115	9,714	(401)	(4)
Equity in Net income (Loss) of Affiliates, and others	(221)	(18)	203	
Segment Profits	¥ 9,894	¥ 9,696	¥ (198)	(2)

	As of March 31, 2018	As of June 30, 2018	Change Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 319,927	¥ 319,724	¥ (203)	(0)
Investment in operating leases	505,472	513,862	8,390	2
Investment in securities	560	566	6	1
Property under facility operations	904	884	(20)	(2)
Inventories	461	574	113	25
Advances for investment in operating leases	197	176	(21)	(11)
Investment in affiliates	1,996	1,974	(22)	(1)
Goodwill and other intangible assets acquired in business combinations	17,673	17,526	(147)	(1)
Total Segment Assets	¥ 847,190	¥ 855,286	¥ 8,096	1

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Real Estate Segment: 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 increased 17% to ¥54,524 million compared to ¥46,520 million during the same period of the previous fiscal year due to an increase in services income from facilities operations which resulted from sales of property under facility operations.

Segment expenses decreased compared to the same period of the previous fiscal year.

As a result of the foregoing and due to a decrease in equity in net income of affiliates which recognized significant gains on sales of investments in real estate joint ventures during the same period of the previous fiscal year, segment profits decreased 32% to ¥22,219 million compared to ¥32,833 million during the same period of the previous fiscal year.

Segment assets decreased 4% to ¥598,140 million compared to the end of the previous fiscal year due primarily to sales of property under facility operations and rental properties.

Asset efficiency decreased compared to the same period of the previous fiscal year due to the absence of the aforementioned significant gains on sales as recorded in the same period of the previous fiscal year although we had made new investments selecting areas and properties carefully.

	Three months ended June 30, 2017	Three months ended June 30, 2018	Change: Amount	Change: Percent (%)
	(Millions of yen, except percentage data)			
Segment Revenues:				
Finance revenues	¥ 496	¥ 484	¥ (12)	(2)
Operating leases	16,501	11,311	(5,190)	(31)
Services income	27,928	40,698	12,770	46
Sales of goods and real estate, and other	1,595	2,031	436	27
Total Segment Revenues	46,520	54,524	8,004	17
Segment Expenses:				
Interest expense	628	617	(11)	(2)

Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities		1,082		15		(1,067)		(99)
Other		33,343		33,554		211		1
Total Segment Expenses		35,053		34,186		(867)		(2)
Segment Operating Income		11,467		20,338		8,871		77
Equity in Net income (Loss) of Affiliates, and others		21,366		1,881		(19,485)		(91)
Segment Profits	¥	32,833	¥	22,219	¥	(10,614)		(32)

		As of March 31, 2018		As of June 30, 2018		Change Amount		Percent (%)
		(Millions of yen, except percentage data)						
Investment in direct financing leases	¥	33,589	¥	33,433	¥	(156)		(0)
Installment loans		312		312		0		0
Investment in operating leases		247,001		236,986		(10,015)		(4)
Investment in securities		2,988		3,662		674		23
Property under facility operations		195,463		201,218		5,755		3
Inventories		2,850		3,557		707		25
Advances for investment in operating leases		20,524		23,139		2,615		13
Investment in affiliates		86,666		83,316		(3,350)		(4)
Advances for property under facility operations		19,351		5,894		(13,457)		(70)
Goodwill and other intangible assets acquired in business combinations		11,494		6,623		(4,871)		(42)
Total Segment Assets	¥	620,238	¥	598,140	¥	(22,098)		(4)

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Investment and Operation Segment: Environment and energy business, principal investment, loan servicing (asset recovery), and concession

In the environment and energy 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 710 megawatts of electricity as of June 30, 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 expand our target zone. Regarding our 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 decreased 45% to ¥234,518 million compared to ¥422,557 million during the same period of the previous fiscal year due to decreases in sales of goods in subsidiaries in the principal investment business which recognized significant demand during the same period of the previous fiscal year and in real estate sales resulting from the decrease in number of condominiums delivered.

Segment expenses decreased compared to the same period of the previous fiscal year in line with the aforementioned revenues decreases.

As a result of the foregoing, segment profits decreased 29% to ¥11,905 million compared to ¥16,657 million during the same period of the previous fiscal year.

Segment assets increased 2% to ¥876,811 million compared to the end of the previous fiscal year due primarily to increases in inventories and advances for property under facility operations in the environment and energy business.

Although asset efficiency decreased compared to the same period of the previous year, the operation rate of solar power generation projects has improved and profit from our concession business has steadily increased.

	Three months ended June 30, 2017	Three months ended June 30, 2018	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Segment Revenues:				
Finance revenues	¥ 2,259	¥ 2,508	¥ 249	11
Gains on investment securities and dividends	3,096	822	(2,274)	(73)
Sales of goods and real estate	339,650	149,329	(190,321)	(56)
Services income	75,348	80,145	4,797	6
Operating leases, and other	2,204	1,714	(490)	(22)

Total Segment Revenues		422,557		234,518		(188,039)	(45)
Segment Expenses:							
Interest expense		1,173		1,704		531	45
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities		(384)		(308)		76	
Other		406,932		225,418		(181,514)	(45)
Total Segment Expenses		407,721		226,814		(180,907)	(44)
Segment Operating Income		14,836		7,704		(7,132)	(48)
Equity in Net income (Loss) of Affiliates, and others		1,821		4,201		2,380	131
Segment Profits	¥	16,657	¥	11,905	¥	(4,752)	(29)

	As of March 31, 2018		As of June 30, 2018		Change Amount		Percent (%)
	(Millions of yen, except percentage data)						
Investment in direct financing leases	¥	25,497	¥	25,664	¥	167	1
Installment loans		59,437		56,917		(2,520)	(4)
Investment in operating leases		30,158		31,200		1,042	3
Investment in securities		29,928		35,053		5,125	17
Property under facility operations		208,106		205,822		(2,284)	(1)
Inventories		101,518		112,934		11,416	11
Advances for investment in operating leases		1,261		2,725		1,464	116
Investment in affiliates		170,449		171,549		1,100	1
Advances for property under facility operations		44,901		51,454		6,553	15
Goodwill and other intangible assets acquired in business combinations		185,093		183,493		(1,600)	(1)
Total Segment Assets	¥	856,348	¥	876,811	¥	20,463	2

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Retail Segment: Life insurance, banking and card loan

In the 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 the balance of outstanding housing loans which is a core of our banking business. In the card loan business, we aim to increase revenues from guarantee fees by expanding guarantees against loans disbursed by other financial institutions. We also aim 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 decreased 9% to ¥102,815 million compared to ¥112,597 million during the same period of the previous fiscal year mainly due to a decrease in investment income from assets under variable annuity and variable life insurance contracts because of the significant market improvement during the same period of the previous fiscal year, despite an increase in life insurance premiums in line with an increase in in-force policies.

Segment expenses decreased compared to the same period of the previous fiscal year in line with the aforementioned decreased revenues.

As a result of the foregoing, segment profits decreased 1% to ¥21,785 million compared to ¥22,014 million during the same period of the previous fiscal year.

Segment assets increased 2% to ¥3,236,630 million compared to the end of the previous fiscal year due primarily to an increase in investment in securities in the life insurance business and an increase in installment loans in the banking business, despite the surrender of variable annuity and variable life insurance contracts.

Although asset efficiency remained the same level compared to the same period of the previous fiscal year, we have steadily expanded our businesses by starting the sale of investment trusts for individuals in the banking business. We have also achieved 4 million policies in force for individual insurance in the life insurance business.

	Three months ended June 30, 2017	Three months ended June 30, 2018	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Segment Revenues:				
Finance revenues	¥ 18,019	¥ 18,693	¥ 674	4
Life insurance premiums and related investment income	93,996	83,203	(10,793)	(11)
Services income, and other	582	919	337	58
Total Segment Revenues	112,597	102,815	(9,782)	(9)

Segment Expenses:

Interest expense		939		1,010	71	8
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities		3,127		3,182	55	2
Other		86,515		76,835	(9,680)	(11)
Total Segment Expenses		90,581		81,027	(9,554)	(11)
Segment Operating Income		22,016		21,788	(228)	(1)
Equity in Net income (Loss) of Affiliates, and others		(2)		(3)	(1)	
Segment Profits	¥	22,014	¥	21,785	¥ (229)	(1)

		As of March 31, 2018		As of June 30, 2018	Change Amount	Percent (%)
		(Millions of yen, except percentage data)				
Investment in direct financing leases	¥	208	¥	157	¥ (51)	(25)
Installment loans		1,852,761		1,870,391	17,630	1
Investment in operating leases		44,319		44,202	(117)	(0)
Investment in securities		1,260,291		1,305,020	44,729	4
Investment in affiliates		702		636	(66)	(9)
Goodwill and other intangible assets acquired in business combinations		16,224		16,224	0	0
Total Segment Assets	¥	3,174,505	¥	3,236,630	¥ 62,125	2

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Overseas Business Segment: 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 1% to ¥118,479 million compared to ¥117,032 million during the same period of the previous fiscal year due to increases in operating leases revenues in our aircraft-related operations including gains on sales of aircraft and services income in the asset management business.

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

As a result of the foregoing and due to a decrease in equity in net income of affiliates, segment profits decreased 7% to ¥40,006 million compared to ¥42,799 million in the same period of the previous fiscal year.

Segment assets decreased 1% to ¥2,574,171 million compared to the end of the previous fiscal year due primarily to decreases in investment in affiliates, and investment in securities in the Americas.

Although asset efficiency decreased compared to the same period of the previous fiscal year, the asset management and the aircraft- and ship-related operations have been steadily developed. Furthermore, we have continued efforts toward increasing profits such as making investments in infrastructure related businesses and signing an agreement to acquire the shares of a loan and asset management company in the U.S.

	Three months ended June 30, 2017	Three months ended June 30, 2018	Change Amount	Change Percent (%)
	(Millions of yen, except percentage data)			
Segment Revenues:				
Finance revenues	¥ 24,493	¥ 23,669	¥ (824)	(3)
Gains on investment securities and dividends	5,989	5,602	(387)	(6)
Operating leases	26,434	29,408	2,974	11
Services income	56,615	58,628	2,013	4
Sales of goods and real estate, and other	3,501	1,172	(2,329)	(67)
Total Segment Revenues	117,032	118,479	1,447	1

Segment Expenses:						
Interest expense		12,707		12,548		(159)	(1)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities		1,939		1,808		(131)	(7)
Other		76,573		77,051		478	1
Total Segment Expenses		91,219		91,407		188	0
Segment Operating Income		25,813		27,072		1,259	5
Equity in Net income (Loss) of Affiliates, and others		16,986		12,934		(4,052)	(24)
Segment Profits	¥	42,799	¥	40,006	¥	(2,793)	(7)

		As of March 31, 2018		As of June 30, 2018		Change Amount	Percent (%)
			(Millions of yen, except percentage data)				
Investment in direct financing leases	¥	368,721	¥	365,404	¥	(3,317)	(1)
Installment loans		534,586		532,575		(2,011)	(0)
Investment in operating leases		491,132		486,910		(4,222)	(1)
Investment in securities		413,440		399,111		(14,329)	(3)
Property under facility operations and servicing assets		43,995		45,286		1,291	3
Inventories		5,923		5,577		(346)	(6)
Advances for investment in operating leases		9,487		12,741		3,254	34
Investment in affiliates		314,569		306,800		(7,769)	(2)
Goodwill and other intangible assets acquired in business combinations		426,966		419,767		(7,199)	(2)
Total Segment Assets	¥	2,608,819	¥	2,574,171	¥	(34,648)	(1)

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(2) Financial Condition

	As of March 31, 2018	As of June 30, 2018	Change Amount	Change Percent (%)
	(Millions of yen except per share, ratios and percentages)			
Total assets	¥ 11,425,982	¥ 11,371,902	¥ (54,080)	(0)
(Segment assets) *1	9,098,918	9,117,155	18,237	0
Total liabilities	8,619,688	8,529,479	(90,209)	(1)
(Short- and long-term debt)	4,133,258	4,000,795	(132,463)	(3)
(Deposits)	1,757,462	1,790,695	33,233	2
ORIX Corporation shareholders equity	2,682,424	2,712,205	29,781	1
ORIX Corporation shareholders equity per share (yen) *2	2,095.64	2,118.69	23.05	1
ORIX Corporation shareholders equity ratio *3	23.5%	23.9%		
D/E ratio (Debt-to-equity ratio) (Short-and long-term debt (excluding deposits) / ORIX Corporation shareholders equity)	1.5x	1.5x		

*1 From the three months ended June 30, 2018, variable interest entities (VIEs) for securitizing financial assets such as lease receivables and loan receivables are included in segment assets, and the amount of segment assets for the previous fiscal year have been reclassified as a result of this change.

*2 ORIX Corporation shareholders equity per share is calculated using total ORIX Corporation shareholders equity.

*3 ORIX Corporation shareholders equity ratio is the ratio as of the period end of ORIX Corporation shareholders equity to total assets.

Total assets remained flat at ¥11,371,902 million compared to the balance as of March 31, 2018. Investment in securities increased due primarily to the purchase of investment in securities in the life insurance business. On the other hand, investment in direct financing leases decreased due primarily to repayment from customers. In addition, segment assets remained flat at ¥9,117,155 million compared to the balance as of March 31, 2018.

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 environment. As a result, long-term debt and short-term debt decreased, and deposits increased compared to the balance as of March 31, 2018.

Shareholders equity increased 1% to ¥2,712,205 million compared the balance as of March 31, 2018 due primarily to an increase in retained earnings.

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(3) Liquidity and Capital Resources

We require capital resources for working capital, investment and loan in our businesses. We accordingly prioritize funding stability, maintaining adequate liquidity, and reducing capital costs. We formulate and execute on funding policies that are resistant to sudden negative events in financial markets, and then conduct funding activities in accordance with actual transitions in our assets and changes in financial markets. In preparing our management plan, we project funding activities to maintain a balanced capital structure in light of projected cash flows, asset liquidity and our own liquidity situation. When implementing our management plan, we adjust our funding based on changes in the external environment and our needs in light of our business activities, and endeavor to maintain flexibility in our funding activities. We endeavor to diversify our funding sources, promote longer liability maturities, disperse interest and principal repayment dates, maintain sufficient liquidity, optimize the balance of liabilities and equity and reinforce our funding stability.

Our funding is comprised of borrowings from financial institutions, direct fund procurement from capital markets, and deposits. ORIX Group s total funding including that from short- and long-term debt and deposits on a consolidated basis was ¥5,791,490 million as of June 30, 2018. Borrowings are procured from a diverse range of financial institutions including major banks, regional banks, foreign banks and life and casualty insurance companies. The number of financial institutions from which we procured borrowings exceeded 200 as of June 30, 2018. Procurement from the capital markets is composed of bonds, medium-term notes, commercial paper, payables under securitized leases, loan receivables and other assets (including asset backed securities). The majority of deposits are attributable to ORIX Bank Corporation.

Short-term and long-term debt and deposits

(a) Short-term debt

	Millions of yen	
	March 31, 2018	**June 30, 2018**
Borrowings from financial institutions	¥ 251,860	¥ 216,668
Commercial paper	54,894	21,509
Total short-term debt	¥ 306,754	¥ 238,177

Short-term debt as of June 30, 2018 was ¥238,177 million, which accounted for 6% of the total amount of short and long-term debt (excluding deposits) as compared to 7% as of March 31, 2018.

While the amount of short-term debt as of June 30, 2018 was ¥238,177 million, the sum of cash and cash equivalents and the unused amount of committed credit facilities as of June 30, 2018 was ¥1,608,467 million.

(b) Long-term debt

	Millions of yen	
	March 31, 2018	**June 30, 2018**
Borrowings from financial institutions	¥ 2,804,357	¥ 2,773,000

Bonds	756,865	735,269
Medium-term notes	183,224	190,541
Payables under securitized lease, loan receivables and other assets	82,058	63,808
Total long-term debt	¥ 3,826,504	¥ 3,762,618

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The balance of long-term debt as of June 30, 2018 was ¥3,762,618 million, which accounted for 94% of the total amount of short and long-term debt (excluding deposits) as compared to 93% as of March 31, 2018.

(c) Deposits

	Millions of yen	
	March 31, 2018	June 30, 2018
Deposits	¥ 1,757,462	¥ 1,790,695

Apart from the short-term and long-term debt noted above, ORIX Bank Corporation and ORIX Asia Limited accept deposits. These deposit-taking subsidiaries are regulated institutions, and loans from these subsidiaries to ORIX Group entities are subject to maximum regulatory limits.

(4) Summary of Cash Flows

Cash, cash equivalents and restricted cash as of June 30, 2018 decreased by ¥78,184 million to ¥1,326,933 million compared to March 31, 2018.

Cash flows provided by operating activities were ¥97,264 million in the three months ended June 30, 2018, up from ¥88,887 million during the same period of the previous fiscal year, primarily resulting from a change from an increase to a decrease in trade notes, accounts and other receivable.

Cash flows provided by investing activities were ¥3,570 million in the three months ended June 30, 2018, up from ¥2,180 million during the same period of the previous fiscal year. This change resulted primarily from decreases in payments of purchases of lease equipment and payments for execution of installment loans made to customers, and an increase in principal payments received under installment loans, but partially offset by an increase in payments for purchases of available-for-sale debt securities and a decrease in proceeds from sales of available-for-sale debt securities.

Cash flows used in financing activities were ¥180,123 million in the three months ended June 30, 2018 compared to the inflow of ¥68,896 million during the same period of the previous fiscal year. This change resulted primarily from a change from an increase to a decrease in debt with maturities of three months or less and a decrease in proceeds from debt with maturities longer than three months.

(5) Challenges to be addressed

There were no significant changes for the three months ended June 30, 2018.

(6) Research and Development Activity

There were no significant changes in research and development activities for the three months ended June 30, 2018.

(7) Major Facilities

There were no significant changes in major facilities for the three months ended June 30, 2018.

4. Material Contracts

Not applicable.

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5. Company Stock Information

(The following disclosure is provided for ORIX Corporation on a stand-alone basis and has been prepared based on Japanese GAAP.)

(1) Issued Shares, Common Stock and Capital Reserve

The number of issued shares, the amount of common stock and capital reserve for the three months ended June 30, 2018 is as follows:

In thousands		Millions of yen			
Number of issued shares		Common stock		Capital reserve	
Increase, net	June 30, 2018	Increase, net	June 30, 2018	Increase, net	June 30, 2018
133	1,324,629	¥150	¥221,111	¥150	¥248,290

(2) List of Major Shareholders

Not applicable (this item is not subject to disclosure in quarterly reports for the three months ended June 30, 2018).

6. Directors and Executive Officers

Between the filing date of Form 20-F for the fiscal year ended March 31, 2018 and June 30, 2018, there were no changes of directors and executive officers.

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7. Financial Information

(1) Condensed Consolidated Balance Sheets (Unaudited)

		Millions of yen	
Assets		**March 31, 2018**	**June 30, 2018**
Cash and Cash Equivalents		¥ 1,321,241	¥ 1,228,846
Restricted Cash		83,876	98,087
Investment in Direct Financing Leases		1,194,888	1,177,749
Installment Loans		2,823,769	2,824,840
The amounts which are measured at fair value by electing the fair value option are as follows:			
March 31, 2018	¥17,260 million		
June 30, 2018	¥28,112 million		
Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses		(54,672)	(56,960)
Investment in Operating Leases		1,344,926	1,339,458
Investment in Securities		1,729,455	1,761,823
The amounts which are measured at fair value by electing the fair value option are as follows:			
March 31, 2018	¥37,631 million		
June 30, 2018	¥18,465 million		
Property under Facility Operations		434,786	438,637
Investment in Affiliates		591,363	581,025
Trade Notes, Accounts and Other Receivable		294,773	305,110
Inventories		111,001	122,907
Office Facilities		112,962	112,509
Other Assets		1,437,614	1,437,871
The amounts which are measured at fair value by electing the fair value option are as follows:			
March 31, 2018	¥15,008 million		
June 30, 2018	¥13,565 million		
Total Assets		¥ 11,425,982	¥ 11,371,902

Note: The assets of consolidated variable interest entities (VIEs) that can be used only to settle obligations of those VIEs are below:

	Millions of yen	
	March 31, 2018	**June 30, 2018**
Cash and Cash Equivalents	¥ 4,553	¥ 7,163
Investment in Direct Financing Leases (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses)	43,942	35,685

Installment Loans (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses)		36,991		25,927
Investment in Operating Leases		124,998		112,937
Property under Facility Operations		108,115		153,575
Investment in Affiliates		52,450		52,372
Other		74,645		74,633
	¥	445,694	¥	462,292

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Liabilities and Equity	Millions of yen March 31, 2018	June 30, 2018
Liabilities:		
Short-term Debt	¥ 306,754	¥ 238,177
Deposits	1,757,462	1,790,695
Trade Notes, Accounts and Other Payable	262,301	265,813
Policy Liabilities and Policy Account Balances	1,511,246	1,510,693
The amounts which are measured at fair value by electing the fair value option are as follows:		
March 31, 2018 ¥444,010 million		
June 30, 2018 ¥419,455 million		
Current and Deferred Income Taxes	366,947	374,557
Long-term Debt	3,826,504	3,762,618
Other Liabilities	588,474	586,926
Total Liabilities	8,619,688	8,529,479
Redeemable Noncontrolling Interests	7,420	7,473
Commitments and Contingent Liabilities		
Equity:		
Common Stock	220,961	221,111
Additional Paid-in Capital	267,291	267,613
Retained Earnings	2,315,283	2,352,321
Accumulated Other Comprehensive Income (Loss)	(45,566)	(53,295)
Treasury Stock, at Cost	(75,545)	(75,545)
ORIX Corporation Shareholders Equity	2,682,424	2,712,205
Noncontrolling Interests	116,450	122,745
Total Equity	2,798,874	2,834,950
Total Liabilities and Equity	¥ 11,425,982	¥ 11,371,902

Note: The liabilities of consolidated VIEs for which creditors (or beneficial interest holders) do not have recourse to the general credit of the Company and its subsidiaries are below:

	Millions of yen March 31, 2018	June 30, 2018
Trade Notes, Accounts and Other Payable	¥ 1,102	¥ 5,123
Long-Term Debt	263,973	278,244
Other	8,047	10,549
	¥ 273,122	¥ 293,916

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(2) Condensed Consolidated Statements of Income (Unaudited)

	Millions of yen			
	Three months ended June 30, 2017		Three months ended June 30, 2018	
Revenues:				
Finance revenues	¥	57,363	¥	56,559
Gains on investment securities and dividends		10,281		7,507
Operating leases		96,679		95,279
Life insurance premiums and related investment income		93,654		82,859
Sales of goods and real estate		347,115		154,455
Services income		187,205		207,258
Total revenues		792,297		603,917
Expenses:				
Interest expense		19,099		20,149
Costs of operating leases		61,738		62,737
Life insurance costs		67,773		57,013
Costs of goods and real estate sold		327,045		142,721
Services expense		112,469		118,111
Other (income) and expense, net		327		1,063
Selling, general and administrative expenses		105,962		105,156
Provision for doubtful receivables and probable loan losses		4,639		4,946
Write-downs of long-lived assets		1,085		26
Write-downs of securities		180		0
Total expenses		700,317		511,922
Operating Income		91,980		91,995
Equity in Net Income of Affiliates		29,133		5,173
Gains on Sales of Subsidiaries and Affiliates and Liquidation Losses, net		14,498		13,786
Income before Income Taxes		135,611		110,954
Provision for Income Taxes		44,670		30,922
Net Income		90,941		80,032
Net Income Attributable to the Noncontrolling Interests		1,179		34
Net Income Attributable to the Redeemable Noncontrolling Interests		50		51
Net Income Attributable to ORIX Corporation Shareholders	¥	89,712	¥	79,947

Note: Certain line items presented in the consolidated statements of income have been changed starting from the three months period ended June 30, 2018. For further information, see Note 2 Significant Accounting and Reporting Policies (ag) Reclassifications.

	Yen	
	Three months ended June 30, 2017	**Three months ended June 30, 2018**
Amounts per Share of Common Stock for Net Income Attributable to ORIX Corporation Shareholders:		
Basic:	¥ 69.81	¥ 62.46
Diluted:	¥ 69.76	¥ 62.41

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(3) Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Millions of yen	
	Three months ended June 30, 2017	Three months ended June 30, 2018
Net Income	¥ 90,941	¥ 80,032
Other comprehensive income (loss), net of tax:		
Net change of unrealized gains (losses) on investment in securities	(1,956)	238
Net change of debt valuation adjustments	0	(3)
Net change of defined benefit pension plans	(257)	(13)
Net change of foreign currency translation adjustments	5,614	(4,736)
Net change of unrealized gains (losses) on derivative instruments	145	(30)
Total other comprehensive income (loss)	3,546	(4,544)
Comprehensive Income	94,487	75,488
Comprehensive Income Attributable to the Noncontrolling Interests	150	23
Comprehensive Income Attributable to the Redeemable Noncontrolling Interests	39	347
Comprehensive Income Attributable to ORIX Corporation Shareholders	¥ 94,298	¥ 75,118

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(4) Condensed Consolidated Statements of Changes in Equity (Unaudited)

Three months ended June 30, 2017

	Millions of yen							
	ORIX Corporation Shareholders Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total ORIX Corporation Shareholders Equity	Noncontrolling Interests	Total Equity
Beginning Balance	¥220,524	¥268,138	¥2,077,474	¥(21,270)	¥(37,168)	¥2,507,698	¥139,927	¥2,647,625
Contribution to subsidiaries						0	2,091	2,091
Transaction with noncontrolling interests		519				519	(2,686)	(2,167)
Comprehensive income, net of tax:								
Net income			89,712			89,712	1,179	90,891
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities				(1,903)		(1,903)	(53)	(1,956)
Net change of defined benefit pension plans				(256)		(256)	(1)	(257)
Net change of foreign currency translation adjustments				6,614		6,614	(989)	5,625
Net change of unrealized gains (losses) on derivative instruments				131		131	14	145

Total other comprehensive income (loss)						4,586	(1,029)	3,557
Total comprehensive income						94,298	150	94,448
Cash dividends			(38,162)			(38,162)	(6,033)	(44,195)
Exercise of stock options						0	0	0
Acquisition of treasury stock					(39,109)	(39,109)	0	(39,109)
Other, net		92	(2)			90	0	90
Ending Balance	¥220,524	¥268,749	¥2,129,022	¥(16,684)	¥(76,277)	¥2,525,334	¥133,449	¥2,658,783

Three months ended June 30, 2018

	Millions of yen							
	ORIX Corporation Shareholders Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total ORIX Corporation Shareholders Equity	Noncontrolling Interests	Total Equity
Balance at March 31, 2018	¥220,961	¥267,291	¥2,315,283	¥(45,566)	¥(75,545)	¥2,682,424	¥116,450	¥2,798,874
Cumulative effect of adopting Accounting Standards Update 2014-09			405			405	354	759
Cumulative effect of adopting Accounting Standards Update 2016-01			2,899	(2,899)		0	0	0
Cumulative effect of adopting Accounting Standards			3,772			3,772	0	3,772

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Balance at April 1, 2018	¥220,961	¥267,291	¥2,322,359	¥(48,465)	¥(75,545)	¥2,686,601	¥116,804	¥2,803,405
Contribution to subsidiaries						0	1,417	1,417
Transaction with noncontrolling interests		141		(1)		140	6,883	7,023
Comprehensive income, net of tax:								
Net income			79,947			79,947	34	79,981
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities				238		238	0	238
Net change of debt valuation adjustments				(3)		(3)	0	(3)
Net change of defined benefit pension plans				(12)		(12)	(1)	(13)
Net change of foreign currency translation adjustments				(5,015)		(5,015)	(17)	(5,032)
Net change of unrealized gains (losses) on derivative instruments				(37)		(37)	7	(30)
Total other comprehensive income (loss)						(4,829)	(11)	(4,840)
Total comprehensive income						75,118	23	75,141
Cash dividends			(49,984)			(49,984)	(2,382)	(52,366)
	150	75				225	0	225

Exercise of stock options								
Acquisition of treasury stock					(0)	(0)	0	(0)
Other, net		106	(1)			105	0	105
Ending Balance	¥221,111	¥267,613	¥2,352,321	¥(53,295)	¥(75,545)	¥2,712,205	¥122,745	¥2,834,950

Note: Changes in the redeemable noncontrolling interests are not included in this table. For further information, see Note 11 Redeemable Noncontrolling Interests.

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(5) Condensed Consolidated Statements of Cash Flows (Unaudited)

	Millions of yen	
	Three months ended June 30, 2017	Three months ended June 30, 2018
Cash Flows from Operating Activities:		
Net income	¥ 90,941	¥ 80,032
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	66,019	70,803
Provision for doubtful receivables and probable loan losses	4,639	4,946
Equity in net income of affiliates (excluding interest on loans)	(28,228)	(4,271)
Gains on sales of subsidiaries and affiliates and liquidation losses, net	(14,498)	(13,786)
Gains on sales of securities other than trading	(8,410)	(5,336)
Gains on sales of operating lease assets	(13,637)	(10,265)
Write-downs of long-lived assets	1,085	26
Write-downs of securities	180	0
Decrease in trading securities	50,991	27,056
Increase in inventories	(3,640)	(11,295)
Decrease (Increase) in trade notes, accounts and other receivable	(7,795)	9,004
Decrease in trade notes, accounts and other payable	(16,217)	(20,698)
Decrease in policy liabilities and policy account balances	(11,639)	(553)
Other, net	(20,904)	(28,399)
Net cash provided by operating activities	88,887	97,264
Cash Flows from Investing Activities:		
Purchases of lease equipment	(256,147)	(206,576)
Principal payments received under direct financing leases	123,799	116,113
Installment loans made to customers	(370,669)	(321,154)
Principal collected on installment loans	288,108	336,482
Proceeds from sales of operating lease assets	88,034	71,969
Investment in affiliates, net	(10,539)	(8,470)
Proceeds from sales of investment in affiliates	50,544	26,675
Purchases of available-for-sale debt securities	(77,959)	(170,907)
Proceeds from sales of available-for-sale debt securities	168,660	95,734
Proceeds from redemption of available-for-sale debt securities	20,878	32,090
Purchases of equity securities other than trading	(12,035)	(27,810)
Proceeds from sales of equity securities other than trading	21,142	36,960
Purchases of property under facility operations	(16,422)	(16,229)
Acquisitions of subsidiaries, net of cash acquired	(1,799)	74
Sales of subsidiaries, net of cash disposed	1,718	350
Other, net	(15,133)	38,269
Net cash provided by investing activities	2,180	3,570

Cash Flows from Financing Activities:		
Net increase (decrease) in debt with maturities of three months or less	32,999	(83,711)
Proceeds from debt with maturities longer than three months	386,813	156,779
Repayment of debt with maturities longer than three months	(312,268)	(241,706)
Net increase in deposits due to customers	40,618	32,860
Cash dividends paid to ORIX Corporation shareholders	(38,162)	(49,984)
Acquisition of treasury stock	(39,109)	(0)
Contribution from noncontrolling interests	2,758	9,006
Purchases of shares of subsidiaries from noncontrolling interests	(3,755)	(918)
Net increase in call money	5,000	0
Other, net	(5,998)	(2,449)
Net cash provided by (used in) financing activities	68,896	(180,123)
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash	4,580	1,105
Net increase (decrease) in Cash, Cash Equivalents and Restricted Cash	164,543	(78,184)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	1,133,212	1,405,117
Cash, Cash Equivalents and Restricted Cash at End of Period	¥ 1,297,755	¥ 1,326,933

Notes: 1. Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2016-18 (Restricted Cash ASC 230 (Statement of Cash Flows)) on April 1, 2018.

2. Accounting Standards Update 2016-01 (Recognition and Measurement of Financial Assets and Financial Liabilities ASC 825-10 (Financial Instruments Overall)) has been applied on April 1, 2018. The amounts that had been previously reported have been reclassified for this application.

3. The following tables provide information about Cash, Cash Equivalents and Restricted Cash which are included in the Company s consolidated balance sheets as of June 30, 2017 and June 30, 2018, respectively.

	Millions of yen	
	June 30, 2017	**June 30, 2018**
Cash and Cash Equivalents	¥ 1,192,225	¥ 1,228,846
Restricted Cash	105,530	98,087
Cash, Cash Equivalents and Restricted Cash	¥ 1,297,755	¥ 1,326,933

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Notes to Consolidated Financial Statements

1. Overview of Accounting Principles Utilized

In preparing the accompanying consolidated financial statements, ORIX Corporation (the Company) and its subsidiaries have complied with accounting principles generally accepted in the United States of America (U.S. GAAP), except for the accounting for stock splits.

These statements include all adjustments (consisting of normal recurring accruals) that we considered necessary to present a fair statement of our results of operations, financial position and cash flows. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our March 31, 2018 consolidated financial statements on Form 20-F.

Since the Company listed on the New York Stock Exchange in September 1998, the Company has filed the annual report (Form 20-F) including the consolidated financial statements with the Securities and Exchange Commission.

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

(a) Revenue recognition for revenue from contracts with customers

Under U.S. GAAP, revenues from contracts with customers such as sales of goods and real estate, and services income are recognized to depict the transfer of promised goods or services to customers in the amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under Japanese GAAP, revenues are generally recognized when cash or monetary assets are received as a consideration by sales of goods or rendering of services in accordance with realization principle.

(b) Initial direct costs

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

Under Japanese GAAP, those initial direct costs are recognized as expenses when they are incurred.

(c) Operating leases

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

Japanese GAAP allows for operating lease assets to be depreciated using mainly either a declining-balance basis or a straight-line basis.

(d) Accounting for life insurance operations

Under U.S. GAAP, certain costs related directly to the successful acquisition of new (or renewal of) insurance contracts, or deferred policy acquisition costs, are being deferred and amortized over the respective policy periods in proportion to anticipated premium revenue.

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

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

(e) Accounting for goodwill and other intangible assets in business combination

Under U.S. GAAP, goodwill and intangible assets that have indefinite useful lives are not amortized, but assessed for impairment at least annually. Additionally, if events or changes in circumstances indicate that the asset might be impaired, the Company and its subsidiaries test for impairment when such events or changes occur.

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

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(f) Accounting for pension plans

Under U.S. GAAP, the net actuarial gain (loss) is amortized using a corridor test.

Under Japanese GAAP, the net actuarial gain (loss) is fully amortized over a certain term within the average remaining service period of employees.

(g) Sale of the parent s ownership interest in subsidiaries

Under U.S. GAAP, in a transaction that results in the loss of control, the gain or loss recognized in income includes the realized gain or loss related to the portion of ownership interest sold and the gain or loss on the remeasurement to fair value of the interest retained.

Under Japanese GAAP, in a transaction that results in the loss of control, only the realized gain or loss related to the portion of ownership interest sold is recognized in income and the gain or loss on the remeasurement to fair value of the interest retained is not recognized.

(h) Consolidated statements of cash flows

Classification in the statements of cash flows under U.S. GAAP differs from Japanese GAAP. As significant differences, purchase of lease equipment and principal payments received under direct financing leases, proceeds from sales of operating lease assets, installment loans made to customers and principal collected on installment loans (excluding issues and collections of loans held for sale) are included in Cash Flows from Investing Activities under U.S. GAAP while they are classified as Cash Flows from Operating Activities under Japanese GAAP.

In addition, under U.S. GAAP, restricted cash is required to be added to the balance of cash and cash equivalents.

(i) Transfer of financial assets

Under U.S. GAAP, an entity is required to perform analysis to determine whether or not to consolidate special-purpose entities (SPEs) for securitization under the VIE s consolidation rules. As a result of the analysis, if it is determined that the enterprise transferred financial assets in a securitization transaction to an SPE that needs to be consolidated, the transaction is not accounted for as a sale but accounted for as a secured borrowing.

In addition, if the transferor transfers a portion of financial assets, the transaction is not accounted for as a sale but accounted for as a secured borrowing unless each interest held by the transferor and transferee meets the definition of a participating interest and the transfer of a portion of financial assets meets criteria for derecognition of transferred financial assets.

Under Japanese GAAP, an SPE that meets certain conditions may be considered not to be a subsidiary of the transferor. Therefore, if an enterprise transfers financial assets to this type of SPE in a securitization transaction, the transferee SPE is not required to be consolidated, and the enterprise accounts for the transaction as a sale and recognizes a gain or loss on the sale into earnings when control over the transferred assets is surrendered.

In addition, if the transferor transfers a portion of financial assets, the enterprise accounts for the transaction as a sale and recognizes a gain or loss on the sale into earnings when the transfer of a portion of financial assets meets criteria for derecognition of transferred financial assets.

(j) Investment in securities

Under U.S. GAAP, unrealized gains and losses from all of equity securities are generally recognized in income.

Under Japanese GAAP, such unrealized gains and losses from equity securities other than trading are recorded in accumulated other comprehensive income (loss), net of applicable income taxes.

(k) Fair value option

Under U.S. GAAP, an entity is permitted to carry certain eligible financial assets and liabilities at fair value and to recognize changes in that item s fair value in earnings through the election of the fair value option. The portion of the total change in the fair value of the liability that results from a change in the instrument-specific credit risk is to be recognized in other comprehensive income (loss).

Under Japanese GAAP, there is no accounting standard for fair value option.

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2. Significant Accounting and Reporting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Investments in affiliates, where the Company has the ability to exercise significant influence by way of 20% 50% ownership or other means, are accounted for by using the equity method. Where the Company holds majority voting interests but noncontrolling shareholders have substantive participating rights to decisions that occur as part of the ordinary course of their business, the equity method is applied. In addition, the consolidated financial statements include variable interest entities to which the Company and its subsidiaries are primary beneficiaries.

A lag period of up to three months is used on a consistent basis for recognizing the results of certain subsidiaries and affiliates.

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

(b) Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company has identified ten areas where it believes assumptions and estimates are particularly critical to the financial statements. The Company makes estimates and assumptions to the selection of valuation techniques and determination of assumptions used in fair value measurements, the determination and periodic reassessment of the unguaranteed residual value for direct financing leases and operating leases, the determination and reassessment of insurance policy liabilities and deferred policy acquisition costs, the determination of the allowance for doubtful receivables on direct financing leases and probable loan losses, the recognition and measurement of impairment of long-lived assets, the recognition and measurement of impairment of investment in securities, the determination of the valuation allowance for deferred tax assets and the evaluation of tax positions, the assessment and measurement of effectiveness in hedging relationship using derivative financial instruments, the determination of benefit obligation and net periodic pension cost and the recognition and measurement of impairment of goodwill and intangible assets that have indefinite useful lives.

(c) Foreign currencies translation

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

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

(d) Revenue recognition

The Company and its subsidiaries recognize revenues from only contracts with customers that are not completed on April 1, 2018, such as sales of goods and real estate, and services income, based on the following five steps;

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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In accordance with these steps, revenues are recognized to depict the transfer of promised goods or services to customers in the amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenues are recognized net of discount, incentives and estimated sales returns. In case that the Company and its subsidiaries receive payment from customers before satisfying performance obligations, the amounts are recognized as contract liabilities. In transactions that involve third parties, if the Company and its subsidiaries control the goods or services before they are transferred to the customers, revenue is recognized on gross amount as the principal.

Excluding the aforementioned policy, the policies as specifically described hereinafter are applied for each of revenue items.

Finance Revenues Finance revenues mainly include revenues from direct financing leases, installment loans, and financial guarantees.

(1) Revenues from direct financing leases

Direct financing leases consist of full-payout leases for various equipment types, including office equipment, industrial machinery and transportation equipment. In providing leasing services, the Company and its subsidiaries execute supplemental services, such as paying insurance and handling taxes on leased assets on behalf of lessees. The excess of aggregate lease rentals plus the estimated unguaranteed residual value over the cost of the leased equipment constitutes the unearned lease income to be taken into income over the lease term by using the interest method. The estimated unguaranteed residual value represents estimated proceeds from the disposition of equipment at the time the lease is terminated. The estimated unguaranteed residual value is based on market value of used equipment, estimates of when and how much equipment will become obsolete, and actual recovery being experienced for similar used equipment. Initial direct costs are being deferred and amortized as a yield adjustment over the life of the related lease by using interest method. The unamortized balance of initial direct costs is reflected as a component of investment in direct financing leases.

(2) Revenues from installment loans

Interest income on installment loans is recognized on an accrual basis. Certain direct loan origination costs, net of origination fees, are being deferred and amortized over the contractual term of the loan as an adjustment of the related loan s yield using the interest method. Interest payments received on impaired loans other than purchased loans are recorded as interest income unless the collection of the remaining investment is doubtful at which time payments received are recorded as reductions of principal. For purchased loans, although the acquired assets may remain loans in legal form, collections on these loans often do not reflect the normal historical experience of collecting delinquent accounts, and the need to tailor individual collateral-realization strategies often makes it difficult to reliably estimate the amount, timing, or nature of collections. Accordingly, the Company and its subsidiaries use the cost recovery method of income recognition for such purchased loans regardless of whether impairment is recognized or not.

(3) Revenues from financial guarantees

At the inception of a guarantee, fair value for the guarantee is recognized as a liability in the consolidated balance sheets. The Company and its subsidiaries recognize revenue mainly over the term of guarantee by a systematic and rational amortization method as the Company and the subsidiaries are released from the risk of the obligation.

(4) Non-accrual policy

In common with all classes, past-due financing receivables are receivables for which principal or interest is past-due 30 days or more. Loans whose terms have been modified are not classified as past-due financing receivables if the principals and interests are not past-due 30 days or more in accordance with the modified terms. The Company and its subsidiaries suspend accruing revenues on past-due installment loans and direct financing leases when principal or interest is past-due 90 days or more, or earlier, if management determines that their collections are doubtful based on factors such as individual debtors creditworthiness, historical loss experience, current delinquencies and delinquency trends. Accrued but uncollected interest is reclassified to investment in direct financing leases or installment loans in the accompanying consolidated balance sheets and becomes subject to the allowance for doubtful receivables and probable loan loss process. Cash repayments received on non-accrual loans are applied first against past due interest and then any surpluses are applied to principal in view of the conditions of the contract and obligors. The Company and its subsidiaries return non-accrual loans and lease receivables to accrual status when it becomes probable that the Company and its subsidiaries will be able to collect all amounts due according to the contractual terms of these loans and receivables, as evidenced by continual payments from the debtors. The period of such continual payments before returning to accrual status varies depending on factors that we consider are relevant in assessing the debtor s creditworthiness, such as the debtor s business characteristics and financial conditions as well as relevant economic conditions and trends.

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Gains on investment securities and dividends Gains on investment securities are recorded on a trade date basis. Dividends are recorded when right to receive dividends is established.

Operating leases Revenues from operating leases are recognized on a straight-line basis over the contract terms. Investment in operating leases is recorded at cost less accumulated depreciation, which was ¥605,415 million and ¥617,547 million as of March 31, 2018 and June 30, 2018, respectively. Operating lease assets are depreciated over their estimated useful lives mainly on a straight-line basis. Depreciation expenses are included in costs of operating leases. Gains or losses arising from dispositions of operating lease assets are included in operating lease revenues.

Estimates of residual values are based on market values of used equipment, estimates of when and the extent to which equipment will become obsolete and actual recovery being experienced for similar used equipment.

(e) Insurance and reinsurance transactions

Premium income from life insurance policies, net of premiums on reinsurance ceded, is recognized as earned premiums when due.

Life insurance benefits are recorded as expenses when they are incurred. Policy liabilities and policy account balances for future policy benefits are measured using the net level premium method, based on actuarial estimates of the amount of future policyholder benefits. The policies are characterized as long-duration policies and mainly consist of whole life, term life, endowments, medical insurance and individual annuity insurance contracts. For policies other than individual annuity insurance contracts, computation of policy liabilities necessarily includes assumptions about mortality, morbidity, lapse rates, future yields on related investments and other factors applicable at the time the policies are written. A certain subsidiary continually evaluates the potential for changes in the estimates and assumptions applied in determining policy liabilities, both positive and negative and uses the results of these evaluations both to adjust recorded liabilities and to adjust underwriting criteria and product offerings.

The insurance contracts sold by the subsidiary include variable annuity, variable life and fixed annuity insurance contracts. The subsidiary manages investment assets on behalf of variable annuity and variable life policyholders, which consist of equity securities and are included in investments in securities in the consolidated balance sheets. These investment assets are measured at fair value with realized and unrealized gains or losses recognized in life insurance premiums and related investment income in the consolidated statements of income. The subsidiary elected the fair value option for the entire variable annuity and variable life insurance contracts with changes in the fair value recognized in life insurance costs.

The subsidiary provides minimum guarantees to variable annuity and variable life policyholders under which it is exposed to the risk of compensating losses incurred by the policyholders to the extent contractually required. To mitigate the risk, a portion of the minimum guarantee risk related to variable annuity and variable life insurance contracts is ceded to reinsurance companies and the remaining risk is economically hedged by entering into derivative contracts. The reinsurance contracts do not relieve the subsidiary from the obligation as the primary obligor to compensate certain losses incurred by the policyholders, and the default of the reinsurance companies may impose additional losses on the subsidiary. Certain subsidiaries have elected the fair value option for certain reinsurance contracts relating to variable annuity and variable life insurance contracts, which is included in other assets in the consolidated balance sheets.

Policy liabilities and policy account balances for fixed annuity insurance contracts are measured based on the single-premiums plus interest based on expected rate and fair value adjustments relating to the acquisition of the subsidiary, less withdrawals, expenses and other charges. The credited interest is recorded in life insurance costs in the consolidated statements of income.

Certain costs related directly to the successful acquisition of new or renewal insurance contracts, or deferred policy acquisition costs, are deferred and amortized over the respective policy periods in proportion to anticipated premium revenue. These deferred policy acquisition costs consist primarily of first-year commissions, except for recurring policy maintenance costs and certain variable costs and expenses for underwriting policies.

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

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

Developing the allowance for doubtful receivables on direct financing leases and probable loan losses is subject to numerous estimates and judgments. In evaluating the appropriateness of the allowance, management considers various factors, including the business characteristics and financial conditions of the obligors, current economic conditions and trends, prior charge-off experience, current delinquencies and delinquency trends, future cash flows expected to be received from the direct financing leases and loans and value of underlying collateral and guarantees.

Impaired loans are individually evaluated for a valuation allowance based on the present value of expected future cash flows, the loan s observable market price or the fair value of the collateral securing the loans if the loans are collateral-dependent. For non-impaired loans, including loans that are not individually evaluated for impairment, and direct financing leases, the Company and its subsidiaries evaluate prior charge-off experience segmented by the debtors industries and the purpose of the loans, and then develop the allowance for doubtful receivables on direct financing leases and probable loan losses considering the prior charge-off experience and primarily current economic conditions.

The Company and its subsidiaries charge off doubtful receivables when the likelihood of any future collection is believed to be minimal considering debtors creditworthiness and the liquidation status of collateral.

(g) Impairment of long-lived assets

The Company and its subsidiaries perform a recoverability test for long-lived assets to be held and used in operations, including tangible assets and intangible assets being amortized, consisting primarily of office buildings, condominiums, golf courses and other properties under facility operations, whenever events or changes in circumstances indicated that the assets might be impaired. The assets are considered not recoverable when the undiscounted future cash flows estimated to be generated by those assets are less than the carrying amount of those assets. The carrying amount of assets not recoverable is reduced to fair value if lower than the carrying amount. The Company and its subsidiaries determine the fair value using appraisals prepared by independent third party appraisers or our own staff of qualified appraisers based on recent transactions involving sales of similar assets or other valuation techniques such as discounted cash flows methodologies using future cash flows estimated to be generated from operation of the existing assets or completion of development projects, as appropriate.

(h) Investment in securities

Equity securities are generally reported at fair value with unrealized gains and losses included in income. Equity securities without readily determinable fair values are recorded at its cost minus impairment, if any, plus or minus changes resulting from observable price changes under electing the measurement alternative, except for investments which are valued at net asset value per share.

Equity securities elected to apply to the measurement alternative are written down to its fair value with losses included in income if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than its carrying value.

In addition, investments included in equity securities recorded at value that reflects equity income and loss based on the Company s share are recorded at fair value with unrealized gains and losses included in income if certain subsidiaries elect the fair value option.

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

Available-for-sale debt securities are reported at fair value, and unrealized gains or losses are recorded in accumulated other comprehensive income (loss), net of applicable income taxes, except for investments which are recorded at fair value with unrealized gains and losses included in income by electing the fair value option.

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

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

(i) Income taxes

The Company, in general, determines its provision for income taxes for quarterly periods by applying the current estimate of the effective tax rate for the full fiscal year to the actual year-to-date income before income taxes. The estimated effective tax rate is determined by dividing the estimated provision for income taxes for the full fiscal year by the estimated income before income taxes for the full fiscal year.

At the fiscal year end, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date. The Company and its subsidiaries release to earnings stranded income tax effects in accumulated other comprehensive income (loss) resulting from changes in tax laws or rates or changes in judgment about realization of a valuation allowance on a specific identification basis when the individual items are completely sold or terminated. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The effective income tax rates for the three months ended June 30, 2017 and 2018 were 32.9% and 27.9%, respectively. For the three months ended June 30, 2017, the Company and its subsidiaries in Japan were subject to a National Corporate tax of approximately 24%, an Inhabitant tax of approximately 4% and a deductible Enterprise tax of approximately 4%, which in the aggregate result in a statutory income tax rate of approximately 31.7%. For the three months ended June 30, 2018, the Company and its subsidiaries in Japan were subject to a National Corporate tax of approximately 24%, an Inhabitant tax of approximately 4% and a deductible Enterprise tax of approximately 4%, which in the aggregate result in a statutory income tax rate of approximately 31.5%. The effective income tax rate is different from the statutory tax rate primarily because of certain nondeductible expenses for tax purposes, non-taxable income for tax purposes, changes in valuation allowance, the effect of lower tax rates on certain subsidiaries and the effect of investor taxes on earnings of subsidiaries.

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The Company and its subsidiaries file tax returns in Japan and certain foreign tax jurisdictions and recognize the financial statement effects of a tax position taken or expected to be taken in a tax return when it is more likely than not, based on the technical merits, that the position will be sustained upon tax examination, including resolution of any related appeals or litigation processes, and measure tax positions that meet the recognition threshold at the largest amount of tax benefit that is greater than 50 percent likely to be realized upon settlement with the taxing authority. The Company and its subsidiaries present an unrecognized tax benefit as either a reduction of a deferred tax asset, a reduction of an amount refundable or a liability, based on the intended method of settlement. The Company and its subsidiaries classify penalties and interest expense related to income taxes as part of provision for income taxes in the consolidated statements of income.

The Company and certain subsidiaries have elected to file a consolidated tax return for National Corporation tax purposes.

(j) Securitized assets

The Company and its subsidiaries have securitized and sold to investors various financial assets such as lease receivables and loan receivables. In the securitization process, the assets to be securitized are sold to trusts or SPEs that issue asset-backed beneficial interests and securities to the investors.

Trusts or SPEs used in securitization transactions are consolidated if the Company and its subsidiaries are the primary beneficiary of the trusts or SPEs, and the transfers of the financial assets to those consolidated trusts and SPEs are not accounted for as sales. Assets held by consolidated trusts or consolidated SPEs continue to be accounted for as lease receivables or loan receivables, as they were before the transfer, and asset-backed beneficial interests and securities issued to the investors are accounted for as debt. When the Company and its subsidiaries have transferred financial assets to a transferee that is not subject to consolidation, the Company and its subsidiaries account for the transfer as a sale if control over the transferred assets is surrendered.

The Company and certain subsidiaries originate and sell loans into the secondary market, while retaining the obligation to service those loans. In addition, a certain subsidiary undertakes obligations to service loans originated by others. The subsidiary recognizes servicing assets if it expects the benefit of servicing to more than adequately compensate it for performing the servicing or recognizes servicing liabilities if it expects the benefit of servicing to less than adequately compensate it. These servicing assets and liabilities are initially recognized at fair value and subsequently accounted for using the amortization method whereby the assets and liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss. On a quarterly basis, servicing assets and liabilities are evaluated for impairment or increased obligations. The fair value of servicing assets and liabilities is estimated using an internal valuation model, or by obtaining an opinion of value from an independent third-party vendor. Both methods are based on calculating the present value of estimated future net servicing cash flows, taking into consideration discount rates, prepayments and servicing costs. The internal valuation model is validated at least semiannually through third-party valuations.

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(k) Derivative financial instruments

The Company and its subsidiaries recognize all derivatives on the consolidated balance sheets at fair value. The accounting treatment of subsequent changes in the fair value depends on their use, and whether they qualify as effective hedges for accounting purposes. Derivatives for the purpose of economic hedge that are not qualified for hedge accounting are adjusted to fair value through the consolidated statements of income. If a derivative is a hedge, then depending on its nature, changes in its fair value will be either offset against changes in the fair value of hedged assets or liabilities through the consolidated statements of income, or recorded in other comprehensive income (loss).

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

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

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

The ineffective portion of changes in fair value of derivatives that qualify as a hedge are recorded in earnings.

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

(l) Pension plans

The Company and certain subsidiaries have contributory and non-contributory pension plans covering substantially all of their employees. The costs of pension plans are accrued based on amounts determined using actuarial methods, with assumptions of discount rate, rate of increase in compensation level, expected long-term rate of return on plan assets and others.

The Company and its subsidiaries also recognize the funded status of pension plans, measured as the difference between the fair value of plan assets and the benefit obligation, on the consolidated balance sheets. Changes in that funded status are recognized in the year in which the changes occur through other comprehensive income (loss), net of applicable income taxes.

(m) Stock-based compensation

The Company and its subsidiaries measure stock-based compensation expense as consideration for services provided by employees based on the fair value of the grant date. The costs are recognized over the requisite service period.

(n) Stock splits

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

As a result of a revision to the Code before amendment effective on October 1, 2001 and the Companies Act implemented on May 1, 2006, the above-mentioned method of accounting required by the Code became unnecessary.

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In the United States, stock splits in comparable circumstances are considered to be stock dividends and are accounted for by transferring from retained earnings to common stock and additional paid-in capital amounts equal to the fair market value of the shares issued. Common stock is increased by the par value of the shares and additional paid-in capital is increased by the excess of the market value over par value of the shares issued. Had such stock splits made prior to October 1, 2001 been accounted for in this manner, additional paid-in capital as of June 30, 2018 would have increased by approximately ¥24,674 million, with a corresponding decrease in retained earnings. Total ORIX Corporation shareholders equity would remain unchanged. Stock splits on May 19, 2000 were excluded from the above amounts because the stock splits were not considered to be stock dividends under U.S. GAAP.

(o) Cash and cash equivalents

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

(p) Restricted cash

Restricted cash consists of trust accounts under securitization programs and real estate, deposits related to servicing agreements, deposits collected on the underlying assets and applied to non-recourse loans, deposits held on behalf of third parties in the aircraft-related business and others.

(q) Installment loans

Certain loans, for which the Company and its subsidiaries have the intent and ability to sell to outside parties in the foreseeable future, are considered held for sale and are carried at the lower of cost or market value determined on an individual basis, except loans held for sale for which the fair value option was elected. A subsidiary elected the fair value option on its loans held for sale. The subsidiary enters into forward sale agreements to offset the change in the fair value of loans held for sale, and the election of the fair value option allows the subsidiary to recognize both the change in the fair value of the loans and the change in the fair value of the forward sale agreements due to changes in interest rates in the same accounting period.

Loans held for sale are included in installment loans, and the outstanding balances of these loans as of March 31, 2018 and June 30, 2018 were ¥18,300 million and ¥31,076 million, respectively. There were ¥17,260 million and ¥28,112 million of loans held for sale as of March 31, 2018 and June 30, 2018, respectively, measured at fair value by electing the fair value option.

(r) Property under facility operations

Property under facility operations consist primarily of operating facilities (including golf courses, hotels, training facilities and senior housings) and environmental assets (including mega solar), which are stated at cost less accumulated depreciation, and depreciation is calculated mainly on a straight-line basis over the estimated useful lives of the assets. Accumulated depreciation was ¥101,103 million and ¥101,336 million as of March 31, 2018 and June 30, 2018, respectively.

(s) Trade notes, accounts and other receivable

Trade notes, accounts and other receivable primarily include accounts receivables in relation to sales of assets to be leased, inventories and other assets and payment made on behalf of lessees for property tax, maintenance fees and insurance premiums in relation to direct financing lease contracts.

(t) Inventories

Inventories consist primarily of residential condominiums under development, completed residential condominiums (including those waiting to be delivered to buyers under the contract for sale), and merchandise for sale. Residential condominiums under development are carried at cost less any impairment losses, and completed residential condominiums and merchandise for sale are stated at the lower of cost or fair value less cost to sell. The cost of inventories that are unique and not interchangeable is determined on the specific identification method and the cost of other inventories is principally determined on the average method. As of March 31, 2018 and June 30, 2018, residential condominiums under development were ¥51,415 million and ¥66,538 million, respectively, and completed residential condominiums and merchandise for sale were ¥59,586 million and ¥56,369 million, respectively.

The Company and its subsidiaries recorded ¥24 million and ¥41 million of write-downs principally on completed residential condominiums and merchandise for sale for the three months ended June 30, 2017 and 2018, respectively, primarily resulting from a decrease in expected sales price. These write-downs were recorded in costs of goods and real estate sold and included in the Investment and Operation segment.

(u) Office facilities

Office facilities are stated at cost less accumulated depreciation. Depreciation is calculated on a declining-balance basis or straight-line basis over the estimated useful lives of the assets. Accumulated depreciation was ¥51,395 million and ¥52,534 million as of March 31, 2018 and June 30, 2018, respectively.

(v) Other assets

Other assets consist primarily of the excess of purchase prices over the net assets acquired in acquisitions (goodwill) and other intangible assets, reinsurance recoverables in relation to reinsurance contracts, deferred insurance policy acquisition costs which are amortized over the contract periods, leasehold deposits, advance payments made mainly in relation to construction of real estate for operating lease, prepaid benefit cost, servicing assets, derivative assets and deferred tax assets.

(w) Goodwill and other intangible assets

The Company and its subsidiaries account for all business combinations using the acquisition method. The Company and its subsidiaries recognize intangible assets acquired in a business combination apart from goodwill if the intangible assets meet one of two criteria either the contractual-legal criterion or the separately identifiable criterion. Goodwill is measured as an excess of the aggregate of consideration transferred and the fair value of noncontrolling interests over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed in the business combination measured at fair value. The Company and its subsidiaries would recognize a bargain purchase gain when the amount of recognized net assets exceeds the sum of consideration transferred and the fair value of noncontrolling interests. In a business combination achieved in stages, the Company and its subsidiaries remeasure their previously held equity interest at their acquisition-date fair value and recognize the resulting gain or loss, if any, in earnings.

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

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

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

Intangible assets with finite lives are amortized over their useful lives and tested for impairment. The Company and its subsidiaries perform a recoverability test for the intangible assets whenever events or changes in circumstances indicate that the assets might be impaired. The intangible assets are considered not recoverable when the undiscounted future cash flows estimated to be generated by those assets are less than the carrying amount of those assets, and the net carrying amount of assets not recoverable is reduced to fair value if lower than the carrying amount.

The amount of goodwill was ¥368,625 million and ¥363,249 million as of March 31, 2018 and June 30, 2018, respectively.

The amount of other intangible assets was ¥439,100 million and ¥429,857 million as of March 31, 2018 and June 30, 2018, respectively.

(x) Trade notes, accounts and other payable

Trade notes, accounts and other payable include primarily accounts payable in relation to purchase of assets to be leased, merchandise for sale and other assets, accounts payable in relation to construction work of residential condominiums and deposits received mainly for withholding income tax.

(y) Other Liabilities

Other liabilities include primarily interest, bonus accrued expense and accrued benefit liability, advances received from lessees in relation to lease contracts, deposit received from real estate transaction, contract liabilities and derivative liabilities.

(z) Capitalization of interest costs

The Company and its subsidiaries capitalized interest costs primarily related to specific environment and energy assets and long-term real estate development projects.

(aa) Advertising

The costs of advertising are expensed as incurred.

(ab) Earnings per share

Basic earnings per share is computed by dividing net income attributable to ORIX Corporation shareholders by the weighted average number of shares of outstanding common stock in each period. Diluted earnings per share is calculated by reflecting the potential dilution that could occur if securities or other contracts issuing common stock were exercised or converted into common stock.

(ac) Additional acquisition and partial sale of the parent s ownership interest in subsidiaries

Additional acquisition of the parent s ownership interest in subsidiaries and partial sale of such interest where the parent continues to retain control of the subsidiary are accounted for as equity transactions. On the other hand, in a transaction that results in the loss of control, the gain or loss recognized in income includes the realized gain or loss related to the portion of ownership interest sold and the gain or loss on the remeasurement to fair value of the interest retained.

(ad) Redeemable noncontrolling interests

Noncontrolling interests in a certain subsidiary are redeemable preferred shares which are subject to call and put rights upon certain shareholder events. As redemption of the noncontrolling interest is not solely in the control of the subsidiary, it is recorded between liabilities and equity on the consolidated balance sheets at its estimated redemption value.

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(ae) Issuance of stock by an affiliate

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

(af) New accounting pronouncements

In May 2014, Accounting Standards Update 2014-09 (Revenue from Contracts with Customers ASC 606 (Revenue from Contracts with Customers)) was issued, and related amendments were issued thereafter. The core principle of these Updates requires 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. The Company and its subsidiaries adopted 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. The adoption primarily resulted in changes in the timing of revenue recognition for performance fees received from customers regarding asset management business, and 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. The effect of adopting these Updates on the Company and its subsidiaries financial position at the adoption date was mainly an increase of ¥405 million in retained earnings in the consolidated balance sheets. There is no material effect on the Company and its subsidiaries results of operation and financial position as of and for the three months ended June 30, 2018 by adopting these Updates, as compared to the guidance that was in effect before the change.

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 requires an entity to measure equity investments at fair value, and requires recognizing the changes in fair value through earnings or using alternative method that requires carrying value to be adjusted by subsequent observable transactions. Additionally, this Update revises the presentation of certain fair value changes for financial liabilities measured at fair value. The Company and its subsidiaries adopted this Update on April 1, 2018. The effect of adopting this Update on the Company and its subsidiaries financial position at the adoption date was mainly 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, due to reclassification of unrealized changes in fair value of equity investments from accumulated other comprehensive income to retained earnings, and reclassification of changes in fair value of financial liabilities resulting from a change in the instrument-specific credit risk when the Company and its subsidiaries have elected to measure the liabilities at fair value in accordance with the fair value option, from retained earnings to accumulated other comprehensive income.

In February 2016, Accounting Standards Update 2016-02 (ASC 842 (Leases)) was issued, and related amendments were issued thereafter. These Updates require 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. These Updates are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted. In principle, the amendments in these Updates 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 these Updates on April 1, 2019. Based on the Company and its subsidiaries 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 these Updates will have on the Company and its subsidiaries results of operations or financial position, as well as changes in disclosures required by these Updates.

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 i