ORIX

ANNUAL REPORT 1999

Aiming for Real and Lasting Value

Aiming for Real and Lasting Value

IX
Listed
NYSE
THE NEW YORK STOCK EXCHANGE

New York Stock Exchange
(listed on September 16, 1998)

CONTENTS

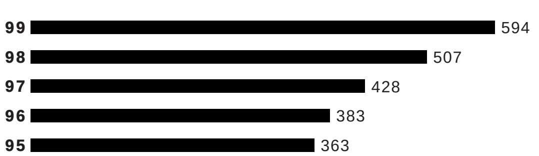
FINANCIAL HIGHLIGHTS

ORIX Corporation and Subsidiaries Years Ended March 31, 1999, 1998 and 1997

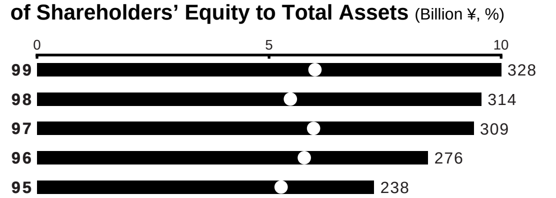
	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Total revenues	**¥ 593,941**	¥ 507,143	¥ 428,294	**$ 5,015,123**
Income before income taxes	**27,315**	38,412	36,889	**230,643**
Net income	**25,621**	23,731	19,044	**216,339**
Per share data (in yen and dollars):				
Net income (basic and diluted earnings per share)	**¥ 396.52**	¥ 366.40	¥ 293.57	**$ 3.35**
Cash dividends	**15.00**	15.00	15.00	**0.13**
Book value	**5,078.42**	4,850.24	4,756.99	**42.88**
Shareholders' equity	**¥ 327,843**	¥ 313,821	¥ 308,584	**$ 2,768,242**
Total assets	**5,347,636**	5,574,309	5,089,975	**45,154,403**

Notes: 1. The Japanese yen and U.S. dollar amounts are in millions of yen and thousands of U.S. dollars, respectively, except for per share data.
2. The dollar amounts above and elsewhere in this report represent translations of Japanese yen at an exchange rate of ¥118.43 to U.S.$1. All dollar amounts in this report refer to U.S. currency. Billion is used in the American sense of one thousand million.
3. Total revenues have changed from those previously shown in this table due to a reclassification in the consolidated statements of income.

Total Revenues (Billion ¥)



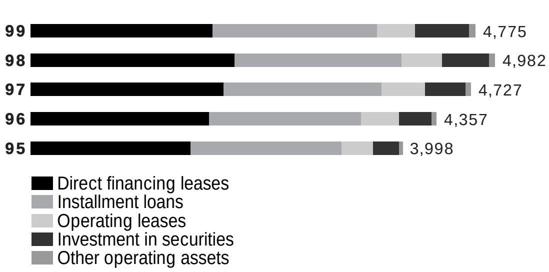
Shareholders' Equity & Ratio of Shareholders' Equity to Total Assets (Billion ¥, %)



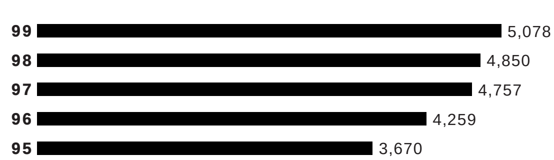
Net Income (Billion ¥)

Net Income per Share (¥)

Operating Assets (Billion ¥)



Book Value per Share (¥)



ORIX—
Japan's Leading Diversified Financial Services Institution

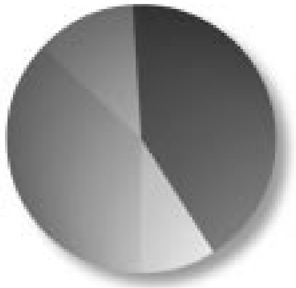
Since its inception, ORIX has striven to be flexible, going beyond existing norms to develop new business niches.

At ORIX, we aim to provide specialized, innovative support across a broad range of financial services, putting the know-how we have developed to work.

Our corporate vision is to contribute to society by creating real and lasting value.

Composition of Operating Assets

As of March 31, 1999



- **Direct Financing Leases**
  ¥1,952,842 million (41%)
  ($16,489 million)
- **Operating Leases**
  ¥411,156 million (9%)
  ($3,472 million)
- **Installment Loans**
  ¥1,761,887 million (37%)
  ($14,877 million)
- **Investment in Securities**
  ¥576,206 million (12%)
  ($4,865 million)
- **Other Operations**
  ¥73,345 million (1%)
  ($619 million)

ORIX's Principal Operations

Direct Financing Leases

- Information-Related and Office Equipment
- Industrial Equipment
- Construction and Civil Engineering Machinery
- Commercial Services Equipment
- Automobiles
- Marine Vessels
- Aircraft

Operating Leases

- Measuring and Analytical Equipment
- Information-Related Equipment
- Automobiles
- Marine Vessels
- Aircraft
- Real Estate

Installment Loans

- Corporate Finance
- Housing Loans
- Card Loans

Other Operations

- Life Insurance
- Securities Brokerage
- Trust and Banking
- Securities Investment
- Venture Capital Investment
- Futures and Options Trading
- Commodities Funds
- Insurance Agency Services
- Ship Management
- Computer Software Development
- Sales of Interior Furnishings
- Real Estate Development and Brokering
- Leisure Facility Management
- Golf Course Management
- Training Facilities Management
- Driving School
- Hotel Management
- Professional Baseball Team
- Environmental Services
- Commercial Mortgage Servicing

I am pleased to present this report on ORIX Corporation's consolidated financial results and business activities for fiscal 1999, ended March 31, 1999, as well as a review of the Company's prospects for the years ahead.

In September 1998, ORIX became the 12th Japanese company to list its shares on the New York Stock Exchange (NYSE). Fiscal 1999 was, therefore, a year to commemorate, marking the beginning of a new chapter in ORIX's history.

Summary of Consolidated Performance

During the fiscal year under review, asset deflation as well as depressed levels of capital expenditure and consumption continued to plague the Japanese economy. In the United States, on the other hand, economic growth continued to be strong, as it has since 1991. The economies of other countries in Asia were stagnant, still suffering from the persistent adverse impact of their currency crises.

In this environment, ORIX worked to promote shareholder value by remaining focused on several highly specialized market segments. At the same time, the Company worked to offer even more comprehensive services and expand its customer base.

Highlights of the year's financial results were as follows. Consolidated net income per share grew for the fourth consecutive fiscal year, reaching an all-time high of ¥396.52 ($3.35), up 8.2% from the previous year. Book value per share at fiscal year-end was ¥5,078.42 ($42.88), up 4.7%. Total revenues rose 17.1%, to ¥593.9 billion ($5.0 billion), while income before income taxes declined 28.9%, to ¥27.3 billion ($231 million). Net income amounted to ¥25.6 billion ($216 million), up 8.0%. Total consolidated operating assets edged down 4.2%, to ¥4.78 trillion ($40.3 billion), at March 31, 1999.

Overview of Operations

In Japan, deflationary conditions intensified and the economy remained sluggish, with lingering uncertainty about future trends. To overcome the challenges of this adverse environment, financial institutions as well as companies in other industries were forced to make difficult choices, including decisions related to rationalization, restructuring, and mergers.

In domestic activities, despite difficult operating conditions, ORIX avoided a major decline in performance. Nevertheless, the weakness in capital expenditure and personal consumption restricted profitability in certain business operations and prevented ORIX from attaining the performance targets set at the start of the fiscal year. On the other hand, ORIX enjoyed an improved competitive environment and was able to effectively harness its marketing capabilities.

Looking overseas, the impact of deteriorating conditions in East Asian economies in the aftermath of the currency crises kept ORIX's profitability in that region low. However, just as in the previous fiscal year, the strength of the U.S. economy supported a surge in profit from North American operations.

Taking into account conditions in Japan and other Asian countries, ORIX made substantial provisions for doubtful receivables and possible loan losses. Although these additional provisions led to a decline in pretax income from the level of the previous fiscal year, the reduction in the corporate income tax rate—which was anticipated—enabled the Company to boost its net income to a record-high level while maintaining and improving the soundness of its financial position.

Founded as a leasing specialist, ORIX has worked to develop niche markets, including those for installment loans, life insurance, and real estate services. In each of these business fields, the Company has endeavored to boost its profitability by offering products that leverage its overall strengths and reputation for innovation while utilizing its nationwide network in Japan to respond accurately to customer needs.

A strong performance was registered from leasing operations in the United States. In Japan, however, deteriorating economic conditions had a chilling effect on capital investment. The Company proceeded with the securitization of lease assets and adopted a cautious stance regarding further expansion of its leasing portfolio. As a result, the overall balance of leased assets shrank. In the field of direct financing leases, ORIX built on its traditional strengths in such fields as automobile leases and small-ticket leases for office automation equipment and conducted marketing activities with due consideration for credit risk dispersion and profitability. In the field of operating leases, weak demand for measuring equipment, computers, and related equipment unfortunately reduced the contributions of these activities to net income.

In installment loan operations, during fiscal 1998, ORIX believed it completed the substantial provisions for doubtful receivables and possible loan losses needed against nonperforming assets that arose as a result of the collapse of the Japanese real estate bubble. In fiscal 1999, the Company made what it believes are appropriate provisions for problem assets that have emerged amid subsequent recessionary conditions. Reflecting stricter credit standards and increased selectivity in new marketing activities, the balance of installment loan assets declined slightly.

In addition to a rise in sales of ORIX's existing agency life insurance products, the Company recorded strong performance in the direct marketing to individuals of "ORIX Direct" life insurance products, which commenced in September 1997. The outstanding balance of insurance contracts thus grew considerably.

Initial performance of the trust and banking operations ORIX acquired in April 1998 was strong, as the Company initiated the direct marketing of deposit products to enhance the convenience of services for customers.

In its commodity fund operations, ORIX reduced the minimum size of its investment units and has enjoyed significant benefits from expanding the scope of its marketing activities to include individuals as well as corporate clients.

In its funding activities, ORIX continued to work to secure access to a stable volume of funding while reducing funding costs by striking the optimum balance between bank borrowing and capital market funding through the issuance of commercial paper (CP), medium-term notes, and corporate bonds as well as the securitization of lease assets. During the current fiscal year, the elimination of restrictions on the usage of funds raised from the issuance of CP and bonds will provide the Company with increased flexibility in its funding operations.

Yoshihiko Miyauchi, President and Chief Executive Officer

Business Outlook

Despite efforts to stimulate the economy through monetary and fiscal measures, Japan continues to experience prolonged stagnation in personal consumption and a slump in capital investment. Prospects for a rapid economic recovery are viewed as dim. However, the gradual implementation of deregulatory measures in the financial sector is steadily increasing the scope of action for market mechanisms within the economy. Following deregulation, in order to survive in the highly competitive global marketplace, companies will be called on to fortify their financial positions, accurately discern industry changes, and preempt their competitors in new expansions.

In this operating environment, ORIX must strive for higher profitability and endeavor to expand its operations within the framework of an efficient organizational structure. In line with these imperatives, at the start of the current fiscal year, ORIX absorbed ORIX Interior Corporation, a subsidiary previously listed on the Osaka Securities Exchange. In view of likely trends in the domestic real estate industry, ORIX has worked to increase the efficiency of its Real Estate Business Headquarters by dividing it into two entities. Departments handling real estate related financing were reorganized into ORIX's Real Estate Finance Headquarters, while departments in charge of such operations as real estate development, sales, and rentals were spun off to form a new subsidiary, ORIX Real Estate Corporation. Among other operations, in response to the recent promulgation of Japan's Special Measures Law Concerning Credit Management and Collection

Business, which provides for the establishment of "servicers" that will assist in the recovery of problem loans and other claims, ORIX established ORIX Asset Management and Loan Services Corporation. In addition to these initiatives, the Company has also been implementing reorganization measures within each of its divisions to enhance the flexibility and efficiency in business expansion.

Further, ORIX is keenly aware of the Year 2000 (Y2K) problem as a key management issue and has established the Y2K Project Department, which has put systems in place to cope with Y2K issues.

The Road Ahead

Our policy has always been to constantly develop new products based on flexible thinking and to draw on our specialized, professional capabilities to offer new financial services.

As the 21st century approaches, epochal changes are clearly taking place. ORIX is intent on keeping a step ahead of these changes and conducting business activities that are highly regarded by society. Attaining this objective will require ORIX to place even greater emphasis on being a company that is managed to create new value.

I believe that the corporate management paradigm for the new era will have the principle of increasing long-term shareholder value at its core. By combining this principle with highly transparent corporate governance structures, we hope to set ourselves the goal of becoming an enterprise capable of sustaining high profitability.

In September 1998, to enhance convenience for its overseas shareholders, ORIX listed its shares on the NYSE. I am confident that ORIX's compliance with what are considered the world's most rigorous disclosure requirements will have a positive impact on the Company's long-term performance. However, achieving the high degree of management transparency that is required for listing in New York—and is appropriate for a leading international company—is just the first step. We are also implementing a series of fundamental management reforms to enable us to optimize our capabilities for responding to conditions in a new era.

Two years ago, ORIX established its Advisory Board, which includes experienced and resourceful individuals from outside the Company, and it has performed in accordance with our expectations. Last year, we introduced a Corporate Executive Officer system and eliminated our Managing Directors' Committee in order to separate the corporate management activities of the Board of Directors from day-to-day administrative operations and thereby boost management efficiency. This year, aiming to create systems that will more effectively promote the attainment of our long-term management objectives and corporate development, we plan to proceed still further with our management structure reforms by separating management decision-making functions from business administration functions. As this move will more clearly delineate responsibilities, we anticipate that it will contribute to the further enhancement of management efficiency.

Our plans call for reducing the number of directors to a level more conducive to expeditious decision making and supplementing the Board of Directors with our Executive Appointment and Compensation Committee. In addition, we intend to phase out the Advisory Board by inviting its members to serve as independent directors.

As a means of further increasing our emphasis on raising shareholder value through internal management systems, we have introduced the ORIX Value Added (OVA) concept, which we are using as an indicator of management efficiency.

Under the OVA concept, a portion of shareholders' equity is allocated to each of ORIX's profit centers in line with the magnitude of risks associated with those divisions' operations. The divisions are expected to pursue returns that are commensurate with the size of their capital allotments. Beginning with the current fiscal year, OVA-related indicators are being employed to achieve a more efficient usage of management resources.

All of the aforementioned initiatives are designed to promote management transparency, objectivity, and accountability to you, our shareholders. I am confident that these steps will make it possible to more effectively serve your long-term interests. With these thoughts in mind, we plan to proceed with business activities to build the ORIX of tomorrow and look forward to your continuing support and advice.

On October 21, 1998, Tsuneo Inui, who was effectively ORIX's first chief executive officer, passed away. Honorary Chairman Inui played a crucial role in laying the foundations for ORIX's growth and made major and lasting contributions to its development. People of his vision and character are rare, and he will be missed.

In closing, I would like to thank ORIX's shareholders, customers, associated financial institutions, and the many other people and companies that provided the Company with support and cooperation during the past fiscal year.

May 20, 1999

宮内義彦

Yoshihiko Miyauchi
President and Chief Executive Officer

In Memory of the Late Tsuneo Inui

Fiscal 1999 was a year in which ORIX began a memorable new stage of its corporate evolution by listing its shares on the NYSE, but it also was a sad year in view of the passing of its honorary chairman, Tsuneo Inui, on October 21, 1998.

Born on January 28, 1910, Tsuneo Inui served as a representative director and acted effectively as ORIX's first chief executive officer at the time of its establishment in April 1964. He was a member of ORIX's Board of Directors during the first 28 years of the Company's existence. The importance of Mr. Inui's contribution to ORIX's development will not be forgotten.

While a director of the Sanwa Bank, Limited, and branch manager of the bank's New York Branch, Mr. Inui noted the development of the U.S. leasing industry with keen interest.

In 1964, the concept of leasing was completely new to Japan. Encouraging the acceptance of leasing by various Japanese industries and the growth of the domestic leasing market required unflagging efforts. ORIX responded to this challenge by developing a corporate culture that encourages enterprising and dynamic initiative on the part of each employee. Emphasizing that business entities must open themselves up to the public, Mr. Inui expressed his strong desire that ORIX be highly integrated with society at large. Reflecting this, ORIX publicly listed its shares in 1970, after only six years of operation.

Based on his extensive experience working overseas and his belief that there should be no international borders in business, Mr. Inui was quick to begin realizing his vision for the internationalization of ORIX's operations.

This internationalization proceeded with a strong emphasis on establishing overseas operations that are deeply rooted in their local communities. ORIX quickly established numerous joint ventures in Southeast Asian countries, and these companies helped lay the groundwork for the development of each country's leasing industry, while also promoting international goodwill.

In recognition of Mr. Inui's contributions, the king of the Malaysian state of Negeri Sembilan granted him the title Darjah Dato'setia Negeri Sembilan, which corresponds to the noble rank of knight or baronet in England.

In July 1969, Mr. Inui was also one of the founders of the Japan Leasing Association. Serving as that association's first vice chairman and as its chairman during the six years from 1980, he invested great energy in promoting the leasing industry's development. In honor of this and other accomplishments, he was decorated with Japan's Third Class Order of the Sacred Treasure in April 1984 and received Fifth Grade, Junior of the Court Rank, upon his passing.

Aiming for Real and Lasting Value— Utilizing Expertise

Being sensitive to change and thinking beyond conventional parameters, ORIX has sought to pursue profitable new niches. Energy, action, and putting accumulated experience to work are the factors that underpin ORIX's development.

Innovative Services That Harness the Power of the Group—
From Direct Financing Lease Pioneer...

- Innovative Operational Models
- A Range of Operations That Utilize Our Accumulated Know-How
- Active Global Expansion

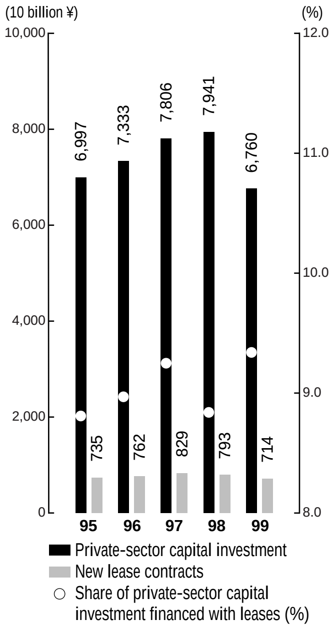
Columns

- ORIX Quick Lease (OQL)
- International Expansion in the United States

Preempting Latent Retail Market Needs—
A New Area of Growth

- Life Insurance
- Trust and Banking
- Personal Financial Services (PFS)
- Card Loans
- Discount Brokerage Services
- Housing Loans

PRIVATE-SECTOR CAPITAL INVESTMENT AND NEW LEASE CONTRACTS IN JAPAN



Source: Japan Leasing Association

Innovative Operational Models

Since its founding, ORIX has anticipated change and endeavored to create new business based on fresh concepts that go beyond existing frameworks.

ORIX began by offering direct financing leases but has expanded into neighboring financial services sectors. For example, as an alternative to leases for financing capital equipment, ORIX responded to client needs and began offering loans to its corporate customers. Thereafter, ORIX entered the field of housing loans to individuals and provided an increasingly broader diversity of financial services.

On another development vector, ORIX broadened its services from leasing into rentals of equipment and real estate, thus diversifying its asset financing activities. In still another direction, ORIX expanded from providing commercial real estate loans and real estate rentals into residential property development and sales.

As these examples suggest, ORIX's growth has expanded from existing areas into neighboring fields and further out to the periphery of these activities to offer a broad diversity of services. In this process, ORIX has developed positions in many niche financial service markets. As a consequence of continuing to enter new areas where it could make fuller use of its management resources, ORIX has begun providing a broad portfolio of services. These are centered around lease financing and rentals, loans (corporate finance, housing loans, card loans, and other loan types), installment sales finance, securities-related services, venture capital, life insurance, trust and banking, commodity funds, and leveraged leases as well as the development, sale, and management of real estate properties.

ORIX Quick Lease (OQL) System Speeds Up Credit Approval and the Application Process.

For large volumes of small-ticket contracts, such as PCs, copiers, facsimiles, and telephones, ORIX has introduced the OQL system, which features simplified credit analysis and approval procedures. For the dispersal of risk and higher profitability, ORIX has directed its attention to the small-ticket leasing market and introduced this new system for expanding lease contracts—for low-unit-price office automation and information-related equipment—through sales outlets.

The system features the concentrated, highly efficient processing of lease applications, including the capability to complete credit approvals and respond the same day in most cases. With the introduction of OQL, ORIX is now able to quickly respond to customer leasing needs and answer accurately to customer demand for upgrading equipment to keep up with technological advancements.

In providing these services, ORIX has built strong ties with a broad customer base. These relationships have enabled ORIX to be in close contact with the growing diversity of customer needs. This in turn has enabled ORIX to accumulate valuable information for the future development of its activities and reflect customer needs in new products and services. ORIX's marketing culture is strong because of its focus on closely monitoring various customer needs and providing services that satisfy customer requirements. This focus is evident in the Company's strategy of proposing a range of products and services as well as offering creative proposals that meet customer requirements.

ORIX will continue to be sensitive to customer needs, offer products and services that draw on its unique features and strengths more effectively, and endeavor at all times to create new value.

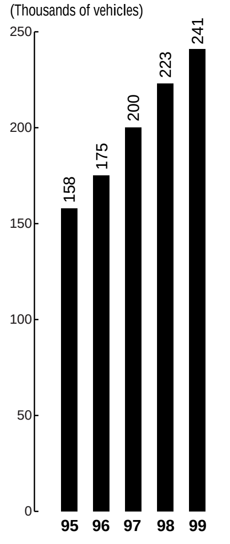
A Range of Operations That Utilize Our Accumulated Know-How

At the same time that ORIX offers creative proposals to its clients, it is actively promoting more specialized activities in its core businesses to strengthen its competitiveness. Some of these are described below:

● DIRECT FINANCING LEASES

As one of ORIX's core businesses, direct financing leases are used to finance computers, office automation (OA) equipment, and other information-related items as well as industrial, commercial services, and transportation equipment. These leases allow users to replace obsolescent facilities and reduce the clerical burden associated with arranging for insurance, maintenance, taxes, and other aspects of equipment purchase and maintenance. As a

ORIX'S AUTOMOBILE LEASING FLEET



consequence of these advantages, direct financing leases are highly regarded by customers, and ORIX has expanded its assets in this area.

In particular, in the field of small-ticket leases for OA and other equipment, the Company has introduced the ORIX Quick Lease (OQL) system (see accompanying column on page 10) to speed up credit analysis and approvals. OQL has enabled ORIX to conduct its marketing activities to provide enhanced convenience for customers.

Based on the wealth of experience it has accumulated, ORIX is able to offer a unique range of products and services, including not only ordinary leasing transactions but also leaseback arrangements for customer assets and package leases of buildings built on land under term leases.

● AUTOMOBILE LEASING

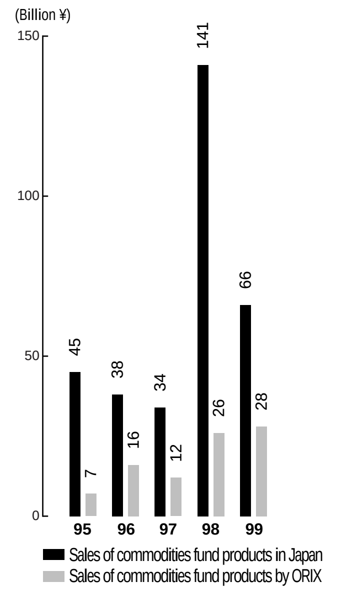
Automobile leasing services offered by ORIX Auto Leasing Corporation (OAL) relieve customers of such time-consuming activities as negotiations with dealers, maintenance, payment of taxes, and arranging for insurance. Together with the trend toward outsourcing, OAL's services in this field have received favorable appraisal from customers. OAL has approximately 241,000 vehicles under lease—the largest number in the Japanese automobile leasing industry—and approximately 7,200 vehicle repair facilities. In addition, with 662 companies in its Million Club association of agents as its core, ORIX has the largest service network in the industry and is able to provide high-quality maintenance services throughout the country.

To further upgrade automobile maintenance capabilities, OAL supplies ORIX brand low-cost, high-quality automobile replacement parts to cooperating vehicle repair facilities throughout Japan. In addition, ORIX has concluded a tie-up with three oil refining and distribution companies and, in 1998, began issuing an Auto Management Service (AMS) Card

that can be used anywhere in the country to allow customers to monitor fuel costs on a centralized basis and obtain other data services. Moreover, to deal with legal, labor-related, accident, and other types of risks, ORIX provides comprehensive risk management services and assists customers, from a variety of perspectives, in effectively managing and controlling costs related to automobile usage.

Based on the maintenance it can offer through its broad service network, ORIX has actively promoted leaseback schemes to customers interested in the outsourcing of vehicle maintenance. This has resulted in growth in the number of vehicles under contract in its automobile fleet business, which involves companies that have 10 or more vehicles.

COMMODITIES FUND PRODUCT SALES



Source: Japan Commodities Fund Association

● REAL ESTATE OPERATIONS

Beginning with housing loans and other financing services, ORIX has worked to expand the range of its real estate operations to include such activities as rental and residential property development and sales business. At present, the Company undertakes the rental and lease of company dormitories, office buildings, and apartments; the planning, development, and sale of condominiums and unit houses; and the management of hotels and golf courses. Because ORIX's series of condominium developments, named "Sanctus," has earned a good reputation for quality and prime locations, sales of condominiums amounted to 575 during the year under review.

Aiming to utilize management resources more efficiently, ORIX divided its former Real Estate Business Headquarters into two organizational entities in March 1999. The operations of departments responsible for real estate related finance were reorganized within the new Real Estate Finance Headquarters. Real estate development, leasing and rental business, and other real estate related operations of the former Real Estate Business Headquarters and various Group companies were consolidated in the form of a newly established subsidiary, ORIX Real Estate Corporation. Responding to the February 1999 implementation of the Special Measures Law Concerning Credit Management and Collection Business (the so-called Servicer Law), the Company established ORIX Asset Management and Loan Services Corporation to undertake servicer operations.

Since the Law on Securitization of Specified Assets by Special-Purpose Companies (the so-called SPC Law) took effect in September 1998, ORIX has proactively engaged in the securitization of real estate assets. Having revised its organizational structure to better address contemporary trends, ORIX is drawing on its experience from U.S. operations and other expertise in handling leases, loans to corporations, and real estate business as it actively works to expand its securitization of real estate and other types of assets as well as develop its servicer operations.

● MEASURING EQUIPMENT RENTALS

ORIX pioneered the development of the equipment rental business in Japan, first offering rentals of measuring equipment for R&D use through ORIX Rentec Corporation. At present, ORIX is expanding and diversifying the types of equipment available for rentals and is going beyond the rental framework to provide technical support, including measuring services. Moreover, such activities are being expanded to include closely related engineering services, including computer systems integration.

ORIX's Tokyo and Kobe technical centers provide high-quality equipment and sophisticated management techniques and were the first to receive ISO 9002 quality assurance certification among domestic rental companies. In addition, ORIX has developed a computer network distribution management system that allows rental equipment to be retrieved from the warehouse in only 26 seconds after a customer places an order. This system has been highly appraised by rental customers. ORIX also develops strong resale channels for the disposal of items, including sales via the Internet and equipment auctions. These channels allow for the sale of used equipment on favorable terms.

At present, ORIX has approximately 20,000 types of equipment and more than 350,000 individual items under rental. Through its efforts to add value to rentals by providing technical services, ORIX is endeavoring to further differentiate its services and establish an indisputable leading position.

● **ENVIRONMENT–RELATED BUSINESS**

ORIX Eco Services Corporation, a wholly owned subsidiary, was established in April 1998 to assist ORIX's clients to deal with their waste management problems. Its activities include organizing a network of waste disposal companies, introducing them to ORIX customers, and acting as an intermediary between these companies. The nationwide waste disposal market in Japan has expanded to ¥4 trillion, as measured by the turnover of waste management companies.

Active Global Expansion

Since entering Hong Kong in 1971, ORIX has actively expanded its international activities and has built a network of 45 companies in 21 countries. Most recently, preparations have been moving forward for the establishment of a joint venture in Saudi Arabia in summer 1999. ORIX's approach to international expansion has been to focus first on direct financing leases and, while taking account of the ways of thinking and customs in the host nation, to either establish wholly owned operations or set up joint ventures with a strong local partner. In the cases of ORIX Commercial Alliance Corporation, in the United States, and ORIX Polska S.A., ORIX has been able to expand its network coverage through acquisitions. In addition to direct financing leases, in order to diversify and provide greater value, ORIX has offered automobile maintenance leases in Singapore, Malaysia, Hong Kong, and Taiwan and has provided operating leases for measuring equipment in Singapore and Malaysia.

In addition to leasing operations, ORIX began providing services for individuals in Hong Kong, including housing loans and credit card services. In the United States, ORIX has undertaken a diverse range of financial and real estate related businesses, including corporate finance as well as real estate financing and development operations.

ORIX has also offered aircraft operating leases, which are by nature borderless and international. The Company has established a base in Ireland and provides these aircraft leasing services to superior airlines around the world. As of March 31, 1999, ORIX maintains 23 Airbus 320 aircraft and one Boeing 737 aircraft under lease. In addition to these services, ORIX is responsible for the management of two other Boeing 737 aircraft. Along with these international activities, the Company also offers financing and operating leases for shipping and manages a portfolio of securities.

International Expansion in the United States

Since entering the U.S. market in 1974, ORIX has undertaken a diverse range of financial service and real estate related businesses.

ORIX USA CORPORATION (OUC) is engaged in a wide spectrum of activities, including offering corporate finance, providing real estate related financing, investing in and providing financing for mortgage-backed securities, and providing lease financing for capital equipment. In addition, drawing on OUC's experience in securities investments, in June 1998, collateralized bond obligations (CBOs) were issued based on securities held by OUC to obtain low-cost funding.

ORIX Commercial Alliance Corporation, another U.S. subsidiary, specializes in lease financing for transportation equipment and construction machinery. ORIX Real Estate Equities, Inc. (OREE), is engaged primarily in investing in profitable properties and providing real estate management services. OREE has a good track record for employing the "build-to-suit" approach to real estate development, which involves locking in revenues by negotiating a long-term contract in advance and offering a purchase option to potential tenants.

Banc One Mortgage Capital Markets, LLC., provides highly sophisticated professional services, including the securitization of commercial mortgage-backed loans and commercial mortgage servicing. Another company accounted for by the equity method is Stockton Holdings Limited, which is engaged in various types of commodity investments and financial futures trading as well as offering reinsurance services.

In the retail financial services market, which appears to have strong growth potential, ORIX has developed and supplied life insurance as well as financial and investment products that elicit a high level of customer satisfaction. To further develop such business, the Company has adopted unique approaches that emphasize efficiency. ORIX plans to continue to offer services carefully tailored to customer needs and will work to establish a strong base in the field of financial services for individuals.

Life Insurance

ORIX Life Insurance Corporation's "ORIX Direct," which commenced in September 1997, is Japan's first range of whole life, endowment, and term life insurance products offered through direct channels. As this insurance is sold via newspaper advertisements, the Internet, and other direct channels, such administration expenses as agent fees and marketing office expenses have been reduced. As a consequence, ORIX is able to offer this insurance at a lower cost than its competitors. Also, by setting an upper limit of ¥10 million on insurable amounts (¥15 million on single payment endowment insurance), ORIX has been able to simplify analysis and approval procedures. These insurance products have met with a favorable consumer response.

During the fiscal year under review, sales of "ORIX Direct" insurance continued to expand at a high rate, and, together with insurance products marketed to corporate clients through sales agencies, the total value of insurance contracts in force rose to ¥2,260 billion ($19 billion) at fiscal year-end.

Trust and Banking

ORIX Trust and Banking Corporation (the former Yamaichi Trust & Bank, Ltd.) became a member of the ORIX Group in fiscal 1998 and, in March 1999, began to market "Direct Deposits," which are also offered via direct channels. Operating costs have been restrained by marketing these deposits through newspaper advertisements and other media, making it possible to offer more attractive deposit rates than other financial institutions. These services have been highly evaluated by the Company's customers.

Personal Financial Services (PFS)

In July 1997, the PFS Department began to offer "Life Insurance Diagnostic Services," which are of strong interest to consumers as they address issues relevant to everyday life. The objective of these services is to provide detailed advice to customers regarding the type of insurance most suited to their individual lifetime financial plans. In addition, based on the data gathered while providing these services, the PFS Department makes proposals for insurance products that are tailored to individual customers.

The PFS Department has also begun to offer commodity fund investment products to individuals via direct channels. The minimum investment unit for these funds has been reduced to ¥1 million. In the past, the principal customers for commodity funds were corporations, but as a result of this reduction in the minimum investment unit, these funds are also suited for investment by individuals, and a large number of applications have been received.

Card Loans

VIP Loan Card, offered by ORIX Credit Corporation, is a card-based line of credit provided to businesspeople. Well received by customers, this service allows cardholders to make withdrawals from a broad nationwide network of CDs and ATMs up to a prearranged limit at reasonable interest rates and select from a range of repayment plans. ORIX also issues the CLUB CARD through its ORIX Club Corporation. This card is attuned to the lifestyles of younger people and helps them pursue leisure activities and various other interests. To enhance convenience for customers, applications for these card products—which are tailored to the needs of individual customers—can be submitted not only to ORIX offices but also through newspaper advertisements and via the Internet.

Discount Brokerage Services

To take advantage of deregulation with respect to securities brokerage commissions scheduled for October 1999, ORIX Securities Corporation is making preparations to offer discount brokerage services to individual investors. As part of this move to further develop its activities, in May 1999 the company began to offer ON-LINE TRADE, an equity trading service available via telephone, facsimile, and the Internet.

Housing Loans

ORIX offers a range of housing loans to individuals especially tailored to their needs and circumstances. Examples include “one million yen loans” that require down payments of only ¥1 million for customers purchasing a home for the first time, “100% loans” that ensure that customers can finance the difference between the prospective selling price of their present homes and the purchase cost of a new house, “level-up loans,” that accommodate the needs of customers desiring to sell their present houses where the balance of their mortgage exceeds the sales price, loans over leasehold housing, and floating-rate loans with an initial fixed-rate option.

Management's Discussion and Analysis of Operations

1. Performance Summary

▶ Reflecting the influence of such factors as the Company's securitization of lease assets and the strength of the yen relative to the U.S. dollar, ORIX's consolidated operating assets decreased 4.2% from the previous year, to ¥4,775.4 billion ($40.3 billion).

▶ Despite a decline in lease revenues, ORIX's total revenues advanced 17.1%, to ¥593,941 million ($5,015 million), owing to solid increases in life insurance premiums and related investment income as well as in revenues from housing development operations in the other operating revenues category.

▶ Total expenses grew 18.2%, to ¥562,899 million ($4,753 million), due to rises in life insurance costs and other costs commensurate with the previously mentioned rapid expansion of certain types of business. Judging that the decline in certain securities prices at the end of the period was not temporary, the Company recorded an ¥11,077 million ($94 million) write-down on certain issues of available-for-sale securities.

▶ Income before income taxes thus dropped 28.9%, to ¥27,315 million ($231 million), but the lowering of Japan's normal corporate income tax rate reduced ORIX's deferred tax liability and resulted in an increase in its net income for the fourth consecutive fiscal year. Net income rose 8.0%, to the record level of ¥25,621 million ($216 million).

Revenues and Expenses

(Millions of yen)

	1999	1998	Change	Percent change
Total revenues	**¥593,941**	¥507,143	¥86,798	17.1
Direct financing leases	**143,170**	149,369	(6,199)	(4.2)
Operating leases	**92,407**	97,668	(5,261)	(5.4)
Interest on loans and investment securities	**100,480**	95,033	5,447	5.7
Life insurance premiums and related investment income	**196,259**	126,031	70,228	55.7
Total expenses	**562,899**	476,102	86,797	18.2
Interest expense	**140,846**	142,177	(1,331)	(0.9)
Life insurance costs	**186,775**	115,876	70,899	61.2
Selling, general and administrative expenses	**82,395**	79,671	2,724	3.4
Net income	**25,621**	23,731	1,890	8.0

Assets

(Millions of yen)

	1999	1998	Change	Percent change
Investment in direct financing leases	**¥1,952,842**	¥2,186,022	¥(233,180)	(10.7)
Installment loans	**1,761,887**	1,794,825	(32,938)	(1.8)
Investment in operating leases	**411,156**	435,066	(23,910)	(5.5)
Investment in securities	**576,206**	500,449	75,757	15.1
Other operating assets	**73,345**	65,838	7,507	11.4
Total operating assets	**4,775,436**	4,982,200	(206,764)	(4.2)
Other	**572,200**	592,109	(19,909)	(3.4)
Total assets	**¥5,347,636**	¥5,574,309	¥(226,673)	(4.1)

New Business Volumes

(Millions of yen)

	1999	1998	Change	Percent change
Direct financing leases (new equipment acquisitions)	**¥913,221**	¥1,093,519	¥(180,298)	(16.5)
Installment loans	**706,758**	715,030	(8,272)	(1.2)
Operating leases	**92,272**	98,566	(6,294)	(6.4)
Debt securities and funds in trust	**302,035**	217,225	84,810	39.0

2. Operating Results

(1) Operating Revenues

▶ Total revenues grew 17.1%, to ¥593,941 million ($5,015 million). This was principally attributable to a ¥70,228 million rise in life insurance premiums and related investment income as well as a ¥20,007 million advance in the other operating revenues category.

Direct Financing Leases—Revenue from investment in direct financing leases decreased 4.2%, to ¥143,170 million ($1,209 million). This decline reflected a sharp drop in revenues from operations in Asia, although revenues from domestic and the Americas' operations remained strong.

▶ The balance of investment in direct financing leases decreased 10.7%, to ¥1,952.8 billion ($16.5 billion). The Company maintained a high level of investment in small-ticket leases for such products as information- and office automation (OA)-related equipment. Regarding industrial equipment, the level of new lease contracts remained strong, particularly in the United States. In Indonesia, however, factors including the depreciation of the local currency depressed the balance of investment.

▶ During fiscal 1999, ¥185.0 billion ($1,562 million) of domestic lease assets were securitized, and overseas subsidiaries also engaged in the securitization of lease assets. These securitization transactions, accounted for as off balance sheet assets, were a factor in reducing the balance of direct financing leases.

Investment in Direct Financing Leases (Millions of yen)

	1999	1998	Change	Percent change
Information-related and office equipment	¥ 493,298	¥ 623,203	¥(129,905)	(20.8)
Industrial equipment	444,261	473,140	(28,879)	(6.1)
Commercial services equipment	224,080	273,730	(49,650)	(18.1)
Transportation equipment	414,093	443,486	(29,393)	(6.6)
Other	377,110	372,463	4,647	1.2
	¥1,952,842	¥2,186,022	¥(233,180)	(10.7)

Operating Leases—While revenue from aircraft leasing increased, a fall in revenue from the previous sale of U.S. real estate and other assets reduced revenue from operating leases 5.4%, to ¥92,407 million ($780 million).

▶ In addition to aircraft and further U.S. office building sales, ORIX's investment in operating leases declined due to a drop in demand for measuring, analytical, and information-related equipment as a result of the weak performance of the domestic electronics industry. Thus, the balance of investment in operating leases decreased 5.5%, to ¥411,156 million ($3,472 million). The Company sold two aircraft during the period, reducing the number of aircraft in its fleet to 24.

Investment in Operating Leases (Millions of yen)

	1999	1998	Change	Percent change
Transportation equipment	¥181,886	¥195,392	¥(13,506)	(6.9)
Measuring equipment and personal computers	58,552	59,989	(1,437)	(2.4)
Real estate and other	170,718	179,685	(8,967)	(5.0)
	¥411,156	¥435,066	¥(23,910)	(5.5)

Interest on Loans and Investment Securities—The average balance of ORIX's installment loans and investment in securities was higher in fiscal 1999 than in the previous fiscal year. This and efforts to boost profitability enabled the Company to increase interest on loans and investment securities 5.7%, to ¥100,480 million ($848 million).

▶ The balance of ORIX's installment loans declined 1.8%, to ¥1,761.9 billion ($14.9 billion). Despite a rise in the balance of card loans, the balance of domestic loans to individuals decreased, owing to the Company's cautious approach to the extension of new housing loans. Reflecting such factors as the reluctance of Japanese banks to extend new loans, ORIX boosted its new domestic loans to corporate customers but also charged off a large volume of impaired loans, thereby decreasing the balance of its loans to corporate customers in Japan. The strengthening of the yen at period-end was among the factors that caused a 2.4% decrease in the balance of overseas installment loans.

▶ ORIX's employment of the securitization of available-for-sale securities as a new funding method in the United States reduced the balance of investment in securities, but a large increase in policy liabilities invested by ORIX Life Insurance Corporation boosted the balance of investment in securities 15.1%, to ¥576,206 million ($4,865 million).

Installment Loans (Millions of yen)

		1999	1998	Change	Percent change
Domestic borrowers:					
Consumers:	Housing loans	**¥ 411,215**	¥ 426,559	¥(15,344)	(3.6)
	Card loans	**118,347**	98,187	20,160	20.5
	Other	**43,663**	55,811	(12,148)	(21.8)
		573,225	580,557	(7,332)	(1.3)
Commercial:	Real estate related companies	**188,085**	213,911	(25,826)	(12.1)
	Commercial and industrial companies	**614,988**	607,952	7,036	1.2
		803,073	821,863	(18,790)	(2.3)
		1,376,298	1,402,420	(26,122)	(1.9)
Foreign commercial, industrial and other borrowers		**368,661**	377,761	(9,100)	(2.4)
Loan origination costs, net		**16,928**	14,644	2,284	15.6
		¥1,761,887	¥1,794,825	¥(32,938)	(1.8)

Investment in Securities (Millions of yen)

	1999	1998	Change	Percent change
Trading securities	**¥ 414**	¥ 46	¥ 368	800.0
Available-for-sale securities	**507,510**	451,074	56,436	12.5
Held-to-maturity securities	**16,542**	3,127	13,415	429.0
Other securities	**51,740**	46,202	5,538	12.0
	¥576,206	¥500,449	¥75,757	15.1

Brokerage Commissions and Gains on Investment Securities—Besides interest income from securities holdings related to life insurance business, ORIX earns income from securities brokerage commissions and gains on the sale of securities investments, and such income fell 8.5%, to ¥7,381 million ($62 million). The weakness of the Japanese stock market reduced the brokerage commissions of ORIX Securities Corporation from the fiscal 1998 level. Gains on the sale of securities were down due to a decline in the contribution from United States operations.

Life Insurance Premiums and Related Investment Income—Life insurance premiums and related investment income surged 55.7%, to ¥196,259 million ($1,657 million). The sustained popularity of "ORIX Direct" directly marketed life insurance products supported this rise in life insurance premiums. A rise in the balance of managed assets boosted income from investment activities, although the low level of domestic interest rates reduced the yields on those activities.

Other Operating Revenues—Other operating revenues jumped 72.6%, to ¥47,549 million ($401 million), principally as a result of a large rise in revenues from the Company's property development business as well as growth in commission income from commodity fund and leveraged lease arrangements.

(2) Expenses

▶ Total expenses increased 18.2%, to ¥562,899 million ($4,753 million). Life insurance costs were up 61.2%, while selling, general and administrative expenses were up 3.4%. In addition, the Company recorded an ¥11,077 million ($94 million) write-down of securities.

Interest Expense—Interest expense slipped 0.9%, to ¥140,846 million ($1,189 million). One principal factor underlying the decline was a drop in borrowings that accompanied a decrease in operating assets. Another principal factor was the Company's active efforts to diversify its funding operations and reduce funding costs through the increased use of such funding methods as asset securitization and commercial paper (CP) issuance.

Depreciation of Operating Leases—Reflecting a decrease in operating assets due to the sale of aircraft and U.S. real estate assets, depreciation of operating lease assets dropped 3.1%, to ¥57,405 million ($485 million).

Life Insurance Costs—The outstanding balance of policy liabilities surged 61.0%, to ¥356,541 million ($3,011 million), due to an increase in contract volume, particularly for single premium payment products at the beginning of the contract period. The rise in new contracts caused life insurance costs to jump 61.2%, to ¥186,775 million ($1,577 million). As a result of the domestic recession, the number of midterm cancellations increased.

▶ Policy liabilities from life insurance operations for future policy benefits are computed by the net level premium method, based on estimated future investment yields, withdrawals, mortality, and other assumptions appropriate at the time the policies are issued. The average rates of assumed investment yields were 3.7% in fiscal 1999 and 4.4% in fiscal 1998.

Other Operating Expenses—Other operating expenses principally comprise the cost of sales for condominium marketing operations. Reflecting a rise in housing business, other operating expenses jumped 127.7%, to ¥31,522 million ($266 million).

Selling, General and Administrative (SG&A) Expenses—Employee remuneration accounts for approximately half of SG&A expenses, and the remaining half consists of such general expenses as real estate rental, communications, and travel expenses. In fiscal 1999, SG&A expenses rose 3.4%, to ¥82,395 million ($696 million), of which, Year 2000 (Y2K) expenditures totaled approximately ¥500 million ($4 million).

Provision for Doubtful Receivables and Possible Loan Losses—In leasing operations, ORIX's strategy to disperse risk by focusing on small-ticket leases has kept the incidence of doubtful receivables low and maintained a high degree of profitability, although the persistent economic slowdown has caused a small upturn in past-due receivables. In the installment loan business, the Company has carefully extended new loans based on strict credit evaluation standards, thereby expanding its portfolio of solid operating assets.

▶ With regard to problem assets created during Japan's bubble economy period, ORIX has measured impaired loans based on FASB Statement No. 114 ("Accounting by Creditors for Impairment of a Loan") since fiscal 1996. During fiscal 1998, in view of the continued decline in Japanese real estate prices, a portion of real estate collateral was revalued, and additional provisions for doubtful receivables and possible loan losses were made.

▶ Subsequently, in light of the rising incidence of corporate and personal bankruptcies amid Japan's recession and the effects of the currency crises in the Asian region, the Company strictly investigated asset recovery likelihoods. Accordingly, it added ¥52,489 million ($443 million) to provisions charged to income in fiscal 1999.

▶ ORIX proceeded to use a portion of its reserves for possible loan losses to write off a large amount of assets during fiscal 1999, principally loans covered by FASB Statement No. 114. As a result, charge-offs of the allowance for doubtful receivables on direct financing leases and possible loan losses amounted to ¥71,349 million ($602 million), a higher level than in the previous year. At period-end, the balance of allowance for doubtful receivables on direct financing leases and possible loan losses stood at ¥132,606 million ($1,120 million), and the ratio of this figure to the balance of direct financing leases and loans was 3.6%.

Allowance for Doubtful Receivables on Direct Financing Leases and Possible Loan Losses at March 31 (Millions of yen)

	1999	1998
Beginning balance	**¥ 145,741**	¥ 117,567
Provisions charged to income	**52,489**	58,186
Charge-offs	**(71,349)**	(32,771)
Recoveries	**399**	680
Other*	**5,326**	2,079
Ending balance	**¥ 132,606**	¥ 145,741
Investment in direct financing leases and installment loans	**¥3,714,729**	¥3,980,847
Allowance for doubtful receivables on direct financing leases and possible loan losses/investment in direct financing leases and installment loans	**3.6%**	3.7%

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

Write-downs of securities—In view of the protracted weakness of Japan's economy, the downtrend in corporate performances, and the results of the Company's own analysis and consideration of its investments, ORIX concluded that the current drop in the market price of certain securities is not temporary. The Company recorded an ¥11,077 million ($94 million) loss on the revaluation of such securities.

Foreign currency transaction loss, net—The depreciation of certain Asian currencies was a principal cause of the recording of a ¥390 million ($3 million) net foreign currency transaction loss.

(3) Equity in Net Income (Loss) of Affiliates and Gains on Sales of Affiliates

▶ Among affiliates, sound performance was recorded by a U.S.-based company engaged in the securitization and servicing of commercial mortgage obligations, a Bermuda-based company involved in managing futures operations, and a Latin American leasing joint venture. However, due to the generally weak performance of affiliates in Asia and the complete write-downs of ORIX's investment in its Korean leasing joint ventures, the Company's equity in the net income (loss) of affiliates for the period, in total, amounted to a substantial loss.

(4) Provision for Income Taxes

▶ Provision for income taxes dropped 88.5%, to ¥1,694 million ($14 million). This reflects the ¥14,582 million ($123 million) reduction in deferred tax liabilities in line with changes made to the normal income tax rate in Japan effective from April 1, 1999.

(5) Net Income

▶ Operating income totaled ¥31,042 million ($262 million), a level almost equal to that of the previous fiscal year, but income before income taxes fell 28.9%, to ¥27,315 million ($231 million). Reflecting the previously mentioned change in the normal tax rates, net income grew 8.0%, to ¥25,621 million ($216 million), representing the fourth consecutive rise in net income. Net income per share was ¥396.52 ($3.35), up from ¥366.40 in the previous year.

3. Cash Flows

▶ Net cash provided by operating activities increased 17.2%, to ¥289,004 million ($2,440 million). Increase in policy liabilities surged 86.5%, to ¥135,086 million ($1,141 million). Total revenues advanced 17.1%, to ¥593,941 million ($5,015 million), while interest expense edged down 0.9%, to ¥140,846 million ($1,189 million).

▶ Net cash used in investing activities was ¥26,046 million ($220 million), and net cash used in financing activities was ¥269,472 million ($2,275 million). To ensure the liquidity of funding and the ability to acquire new operating assets, ORIX has increased its securitization of lease assets and issuance of domestic CP and bonds, thereby raising the share of its funding procured directly from capital markets to 48.2%, from 43.3% in the previous fiscal year.

▶ Cash and cash equivalents at the end of the fiscal year stood at ¥254,540 million ($2,149 million), down 5.1%. ORIX is continuing to place strong emphasis on the adequate liquidity of its domestic assets as a part of its strategy for ensuring that it has a stable supply of funds.

4. Segment Information

▶ At the end of fiscal 1999, ORIX had invested ¥3.6 trillion ($30.3 billion), or 74.1% of total segment assets, in domestic business segments, which generate a large share of the Company's revenue and income before income taxes. Corporate finance is the largest of ORIX's business segments, and the Company had invested ¥2.0 trillion ($17.3 billion), or 42.3% of total assets, in that segment.

▶ Regarding overseas business segments, the Company had invested approximately ¥634 billion ($5,354 million), or 13.1% of total segment assets, in the Americas; approximately ¥441 billion ($3,723 million), or 9.1%, in Asia and Oceania; and approximately ¥179 billion ($1,508 million), or 3.7%, in Europe.

Segment Profit (Loss)

(Millions of yen)

	1999	1998	Change	Percent change
Domestic Business Segments				
Corporate finance	**¥35,240**	¥44,097	¥ (8,857)	(20.1)
Equipment operating leases	**6,923**	8,407	(1,484)	(17.7)
Real estate related finance	**(11,013)**	(23,071)	12,058	—
Real estate	**(2,236)**	(8,392)	6,156	—
Life insurance	**3,813**	5,762	(1,949)	(33.8)
Other	**(4,266)**	1,891	(6,157)	—
Subtotal	**28,461**	28,694	(233)	(0.8)
Overseas Business Segments				
The Americas	**¥20,590**	21,263	(673)	(3.2)
Asia and Oceania	**(11,729)**	(8,441)	(3,288)	—
Europe	**264**	(2,123)	2,387	—
Subtotal	**9,125**	10,699	(1,574)	(14.7)
Total	**37,586**	39,393	(1,807)	(4.6)
Adjustments	**(10,271)**	(981)	(9,290)	—
Consolidated income before income taxes	**¥27,315**	¥38,412	¥(11,097)	(28.9)

Segment Assets (Millions of yen)

	1999	1998	Change	Percent change
Domestic Business Segments				
Corporate finance	**¥2,046,516**	¥2,233,448	¥(186,932)	(8.4)
Equipment operating leases	**109,772**	103,435	6,337	6.1
Real estate related finance	**573,767**	649,511	(75,744)	(11.7)
Real estate	**273,504**	297,880	(24,376)	(8.2)
Life insurance	**334,836**	196,378	138,458	70.5
Other	**248,872**	243,607	5,265	2.2
Subtotal	**3,587,267**	3,724,259	(136,992)	(3.7)
Overseas Business Segments				
The Americas	**634,101**	668,742	(34,641)	(5.2)
Asia and Oceania	**440,872**	459,042	(18,170)	(4.0)
Europe	**178,559**	251,759	(73,200)	(29.1)
Subtotal	**1,253,532**	1,379,543	(126,011)	(9.1)
Total	**4,840,799**	5,103,802	(263,003)	(5.2)
Adjustments	**(65,363)**	(121,602)	56,239	—
Total consolidated operating assets	**¥4,775,436**	¥4,982,200	¥(206,764)	(4.2)

(1) Domestic Business Segments

Corporate Finance—ORIX's domestic corporate finance operations center on direct financing leases and non real estate related installment loans for corporate customers. For this business segment, segment profit dropped 20.1%, to ¥35,240 million ($298 million), and the balance of segment assets decreased 8.4%, to ¥2,046.5 billion ($17.3 billion).

▶ These trends reflected ORIX's moves to tighten its credit standards for new contracts amid the current economic slowdown in Japan. The trends also reflected the Company's emphasis on profitability and its highly selective approach to new business proposals.

▶ The balance of domestic direct financing leases decreased due to factors including a decline in volume of new contract execution compared with fiscal 1998 as well as the securitization of ¥185 billion ($1,562 million) in assets accounted for as off balance sheet assets.

▶ ORIX continued to position automobile leasing as a strategic growth business, as it strives to develop this business. In particular, the Company has encouraged corporate customers to switch from self-owned vehicle fleets to leased fleets by addressing those customers' desires to outsource vehicle management tasks. As a result, the number of vehicles leased by ORIX at fiscal year-end was approximately 241,000, up 8.2% from the previous year.

▶ Reflecting such factors as the reluctance of Japanese banks to extend new loans, ORIX boosted its new domestic loans to corporate customers.

Equipment Operating Leases—Domestic equipment operating lease business centers principally on the rental of measuring instruments and PCs to corporate customers as well as rent-a-car operations. In fiscal 1999, ORIX recorded ¥6,923 million ($58 million) of segment profit in such business, down 17.7%, and the balance of segment assets in operating leases increased 6.1%, to ¥109,772 million ($927 million). In measuring equipment, OA equipment, and PC rental operations, the Company worked to broaden and diversify the range of products handled while giving emphasis to such technical support services as those involving measuring services and otherwise strove to boost profitability. However, segment profit declined due to a weakness in demand.

Real Estate Related Finance—ORIX's domestic real estate related finance business encompasses real estate loans for corporate customers and housing loans for individuals. In fiscal 1999, the Company greatly increased its segment profit in such business to ¥12,058 million above the level in the previous year but still recorded an ¥11,013 million ($93 million) loss. Following charge-offs of nonperforming assets created during Japan's bubble economy period, segment assets of real estate related finance were down 11.7%, to ¥573,767 million ($4,845 million). During fiscal 1999, the Company closely monitored trends in the domestic operating environment, maintaining strict credit standards and being highly selective with regard to the marketing of new loans. Moreover, in consideration of the likelihood of a rise in corporate and personal bankruptcies amid the protracted recession, the Company continued to build up its reserves for possible loan losses.

Real Estate—ORIX's domestic real estate business consists principally of condominium development and office rental activities as well as the operation of such facilities as hotels, employee dormitories, and training facilities. In fiscal 1999, the Company increased its segment profit in such business to ¥6,156 million above the level in the previous year but still recorded a ¥2,236 million ($19 million) loss. This reflected the strong business performance by ORIX's series of condominiums, named "Sanctus," as well as the absence of devaluations of real estate assets in accordance with FASB Statement No. 121 ("Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of"), which were incurred in 1998. The balance of real estate segment assets decreased 8.2%, to ¥273,504 million ($2,309 million).

Life Insurance—Segment profit in life insurance business dropped 33.8%, to ¥3,813 million ($32 million), and the outstanding balance of segment assets jumped 70.5%, to ¥334,836 million ($2,827 million). As demand for "ORIX Direct" life insurance products for individuals launched in fiscal 1998 as well as ORIX's existing products continued to be strong, insurance premiums rose and segment assets surged. Segment profit decreased, however, due to the rising incidence of contract cancellations by corporate customers as well as a decline of fund management yields that reflected interest rate trends.

Other—Among other domestic operations, ORIX expects demand for financial services for individuals to increase and is endeavoring to meet such demand by building a strong operating base for ORIX Securities Corporation and ORIX Trust and Banking Corporation. However, the weakness of the Japanese stock market reduced the brokerage commissions of ORIX Securities during fiscal 1999. ORIX Trust and Banking joined the ORIX Group in April 1998, incurring certain initial expenses. Reflecting this, segment profit dropped sharply during fiscal 1999, to a ¥4,266 million ($36 million) loss. Due to such factors as growth in the amount of funds created by the extension of ORIX Trust and Banking's "Direct Deposits," the outstanding balance of segment assets advanced 2.2%, to ¥248,872 million ($2,101 million).

(2) Overseas Business Segments

The Americas—During fiscal 1999, segment profit in the Americas declined 3.2%, to ¥20,590 million ($174 million). Segment assets amounted to ¥634,101 million ($5,354 million) at fiscal year-end, down 5.2%. Against the backdrop of positive conditions in the U.S. economy, ORIX maintained solid performance in its direct financing lease business and greatly increased the profitability of its operations involving the securitization of loans collateralized with real estate, which were begun in fiscal 1998. This and the realization of gains on the sale of an office building supported strong overall performance, although segment profit was slightly lower than in fiscal 1998 due to the decrease of gains on the sale of stock in affiliates.

Asia and Oceania—In Asia and Oceania, ORIX recorded an ¥11,729 million ($99 million) segment loss during fiscal 1999, ¥3,288 million more than in fiscal 1998. Segment assets amounted to ¥440,872 million ($3,723 million) at fiscal year-end, down 4.0%. Due to the effects of the Asian currency crises in the previous year, economic conditions in Asia and Oceania remained severe. Amid such circumstances, the Company focused on preventing an expansion of losses and restrained new investment. The Company increased the level of its reserves for possible loan losses in Malaysia and wrote off its investment in its joint ventures in Korea.

▶ Of segment assets, ¥314,172 million ($2,653 million) was invested in Asia, and the portion denominated in currencies other than U.S. dollars was ¥163,146 million ($1,378 million).

Europe—Reflecting considerable improvement in the profitability of aircraft operating leasing business, segment profit in Europe rose to ¥264 million ($2 million). Due to factors including the sale of two aircraft, segment assets amounted to ¥178,559 million ($1,508 million) at fiscal year-end, down 29.1%.

5. Funding and Liquidity

(1) Funding Strategy

▶ ORIX's funding operations include borrowings from financial institutions and direct fund procurement from capital markets. Among its diverse borrowing sources are city banks, long-term credit banks, trust banks, and financial institutions associated with the Central Bank for Agriculture and Forestry as well as regional banks, life insurance companies, and foreign banks. The Company procures funds directly from capital markets through the issuance of corporate bonds, CP, and medium-term notes (MTNs) as well as the securitization of lease assets. By diversifying its funding, the Company has maintained stable access to low-cost funds.

▶ Besides diversifying its funding methods, ORIX uses asset-liability management (ALM) systems to manage risks associated with fluctuations in interest rates and liquidity levels. As a result, the Company has maintained stable and timely access to the funds it requires. It is continuing to build a solid foundation for increasingly efficient funding operations.

(2) Diversification of Funding Methods

▶ As deregulation gains momentum in Japan, ORIX is diversifying its funding sources with an eye to securing higher quality funds. The share of ORIX's combined short- and long-term funds procured directly from capital markets was 34.3% at the end of fiscal 1997, 43.3% at the end of fiscal 1998, and 48.2% at the end of fiscal 1999.

▶ To facilitate smooth funding operations, ORIX has obtained credit ratings for its bonds and CP. ORIX's domestically issued unsecured bonds have been assigned an AA– rating from the Japan Credit Rating Agency, Inc. (JCR), and Japan Rating and Investment Information Inc. (R&I). The balance of those bonds issued domestically at the end of fiscal 1999 was ¥560,200 million ($4,730 million). ORIX's domestic CP is rated J-1+ by JCR and a-1+ by R&I, and the Company is authorized to issue CP up to ¥1.1 trillion.

▶ Prohibition on the issuance of CP by financial companies was eliminated in June 1993. The following month, ORIX was the first in its industry to issue domestic CP. From July 1996, the relaxation of regulations governing CP proceeded further, increasing authorized issuance volumes and eliminating restrictions on rollovers.

▶ In April 1998, the sale of CP directly to investors without the assistance of dealers was made possible by additional deregulation. ORIX has energetically worked to increase the number of investors it directly sells CP to and has maintained stable CP issuance.

▶ While the usage of funds raised through CP issuance had been restricted, in May 1999, the so-called Nonbank Debenture Law eliminated such restrictions for lenders that meet certain conditions. As a result, since June 1999, ORIX has been able to issue bonds and other securities without restrictions on the applications of funds raised.

▶ The so-called Business Asset Securitization Law, which took effect in June 1993, has promoted the securitization of leasing and installment receivables. Prior to this change, in January 1992, ORIX became the first company in Japan to securitize lease assets. Subsequently, the Company has actively proceeded with asset securitization domestically and overseas.

▶ As of March 31, 1999, the outstanding balance of ORIX's securitized lease assets on a consolidated basis stood at ¥429,492 million ($3,627 million). Of this figure, the portion accounted for as off balance sheet assets was ¥235,249 million ($1,986 million).

▶ Regarding overseas funding operations, in addition to borrowing from local markets, efforts have been made to increase the diversity of funding methods through such measures as MTN issuance. ORIX and four overseas subsidiaries in the United States, Hong Kong, Ireland, and Singapore are participants in a Multi Issuer Euro MTN program with a maximum issuance limit of $3 billion. This arrangement enables the Company to engage in highly flexible funding programs.

▶ In July 1999, ORIX Australia (Securities) Pty Limited is scheduled to join this Multi Issuer Euro MTN program. Euro MTN issuance is determined based on the funding needs of overseas Group companies under the supervision of the parent company's Treasury Department.

▶ Also, a U.S.-based Group company, ORIX Commercial Alliance Corporation, has established a program for the issuance of MTNs within the United States. As of March 31, 1999, the outstanding balance of ORIX's MTNs stood at ¥252,579 million ($2,133 million).

▶ ORIX's overseas CP was mainly issued in the United States.

6. Shareholders' Equity, Return on Assets, and Return on Equity

▶ Shareholders' equity grew 4.5% from the previous year-end, to ¥327,843 million ($2,768 million). This increase principally reflected a 9.0% rise in retained earnings, to ¥298,684 million ($2,522 million). The shareholders' equity ratio rose to 6.13%. Earnings per share were up 8.2%, to ¥396.52 ($3.35), and net assets per share increased 4.7%, to ¥5,078.42 ($42.88).

▶ With regard to other components of shareholders' equity, cumulative translation adjustments (debit balance) increased to ¥31,703 million ($268 million), primarily due to the appreciation of the yen—the yen-dollar exchange rate rose from ¥133.29=$1 at March 31, 1998, to ¥118.43=$1 at March 31, 1999.

▶ Net unrealized gains on investment in securities increased ¥1,442 million, to ¥4,153 million ($35 million). In light of a weakening of Japanese stock prices—the Nikkei average fell from ¥16,527.17 at March 31, 1998, to ¥15,836.59 ($133.7) at March 31, 1999—ORIX recorded an ¥11,077 million ($94 million) write-down on those stocks that it believes to be undergoing more than a temporary price decline, and the Company thereby reduced the value of its unrealized losses on certain securities.

▶ Also, the Company has used ¥2,793 million ($24 million) to purchase its own shares in line with its stock option scheme, of which ¥1,318 million ($11 million) was used during the fiscal year under review, and this figure was subtracted from shareholders' equity.

▶ On April 1, 1999, with the goal of improving operational efficiency, ORIX absorbed ORIX Interior Corporation, a subsidiary previously listed on the Osaka Securities Exchange. The issuance of new shares on this occasion boosted common stock approximately ¥5 million, to ¥20,185 million ($170 million), and raised the number of outstanding shares approximately 90,000, to 64,961 thousand.

▶ In fiscal 1998 and fiscal 1999, ORIX issued bonds with warrants as part of its performance-linked remuneration system, distributing the warrants to key employees and corporate auditors. At May 20, 1999, approximately 12,000 new shares had been issued through the exercise of these warrants, causing common stock to increase approximately ¥49 million, to ¥20,235 million ($171 million), and raising the number of outstanding shares to 64,973 thousand.

Shareholders' Equity, ROA, and ROE (Millions of yen)

	1999	1998
Shareholders' equity ratio	**6.13%**	5.63%
Return on assets	**0.47%**	0.45%
Return on equity	**7.99%**	7.63%
Net income	**¥ 25,621**	¥ 23,731
Shareholders' equity	**327,843**	313,821
Total assets	**5,347,636**	5,574,309

Notes: 1. The shareholders' equity ratio equals shareholders' equity at fiscal year-end divided by total assets at fiscal year-end.
2. Return on assets equals net income for the fiscal year divided by the average level of total assets during the fiscal year.
3. Return on equity equals net income for the fiscal year divided by the average level of shareholders' equity during the fiscal year.

Per Share Data (Yen)

	1999	1998
Net income (basic and diluted earnings per share)	**¥ 396.52**	¥ 366.40
Cash dividends	**15.00**	15.00
Book value	**5,078.42**	4,850.24

7. Risk Management

(1) Credit Risk Management

▶ ORIX has developed systems for managing credit risk associated with corporate and individual customers and introduced these systems in relevant departments. Under these systems, both the marketing department concerned and the Company's independent Credit Department evaluate and manage customer-, industry-, and country-related risks. Another independent specialized department focuses on the appraisal of real estate collateral. The appropriateness of transactions in legal, tax, and social terms is assessed by other independent departments. Based on this system of internal checks and restraints, the Company methodically considers individual financing proposals and determines whether they should be approved. Credit and collateral risks are evaluated during the credit granting process as well as at appropriate intervals thereafter.

▶ ORIX's three-stage credit risk management process includes initial evaluation to determine whether a transaction will be executed, subsequent monitoring and checks of executed transactions, and recovery processes for problem assets.

Initial Evaluation of Domestic Transactions—The authority to approve new transactions is based on an employee's level of authority and is considered on a cumulative basis. If a proposed transaction would cause the credit balance to exceed a given department's credit limit, it must be referred to the Credit Department. To handle such cases, marketing departments use a speedy, on-line approval process. If the transaction value exceeds the Credit Department's approval limit, in principle, the matter is considered and decided by the Investment and Credit Committee, which consists of corporate executive officers.

▶ During the initial evaluation process, the relevant salesperson obtains, in principle, at least three years of financial data and related information on the new customer with whom the proposed transaction is to be made. The salesperson also interviews management from the company in question and, when necessary, obtains information from independent credit agencies.

▶ Manuals have been prepared to ensure that the credit evaluation process is strictly observed and efficiently executed. These manuals specify credit balance limits; individual authorization limits for specified transactions and products; customer credit evaluation guidelines concerning past transactional performances, financial positions, adequacy of cash flow, and management quality; regulations concerning the evaluation of collateral and guarantees; and other factors. These manuals are revised at appropriate intervals.

Initial Evaluation of International Transactions—The ORIX Group has grown to include subsidiaries or joint ventures in 21 countries outside Japan. All of these companies have introduced credit evaluation systems that are essentially the same as those of ORIX in Japan but have been modified in light of local business practices and economic conditions as well as the special characteristics of relevant transactions.

Monitoring—ORIX maintains monitoring systems that allow it to evaluate customers' creditworthiness and identify potential problem transactions. Coupled with the initial evaluation systems, such monitoring enables the Company to manage its asset portfolio's exposure to particular industries, countries, regions, and products. To reduce exposure to potentially high-risk market segments, the Company reconsiders the appropriateness of transaction balances for each sector on a quarterly basis or at more frequent regular intervals.

▶ Domestic transactions for which payments are delinquent or otherwise not being made in conformity with contractual stipulations are reviewed once every two weeks. Transactions with payments three months or more overdue are reported to top management, and those with payments six months or more overdue are classified as nonperforming assets. Exceptions to these time periods are made in the case of transactions—such as big-ticket aircraft, real estate, and ship-financing transactions—that have special characteristics calling for more stringent monitoring standards.

▶ Internal regulations call for the management of overseas subsidiaries and joint ventures to prepare monthly reports on delinquent transactions. These reports are forwarded to the Company's International Credit Department, which analyzes them and reports on them to top management.

Remedial Measures—As part of the credit management process, ORIX establishes and applies procedures for handling problem transactions. These procedures range from consultative measures that help customers rehabilitate their operations to the receipt of additional collateral or guarantees, repossession, and legal liquidation.

(2) Asset-Liability Management (ALM)

▶ ORIX annually prepares a Performance Target Report on a consolidated basis. Based on the analysis of previous performance and information on each business segment gathered under the instruction of top management in conjunction with relevant departments, this report projects the value of new business volumes, interest rate trends, and various other factors thought to affect performance. The Performance Target Report—including new financial asset marketing targets, a profit projection, balance sheet projections, and medium-term and fiscal-year-based funding plans—is reviewed and approved by the Board of Directors, which is responsible for decisions on the execution of operational measures. Twice a year, a semi-annual funding plan, which sets out a planned funding mix as well as required funding volumes and proposed sources, is prepared with the goal of matching floating-rate assets to floating-rate liabilities. These funding plans are also reviewed and approved by the Board of Directors.

▶ After the approval of these plans, each division executes its operations in accordance with the Performance Target Report. ALM has become an important element of managing the execution of these operations. Under ORIX's ALM system, the relationship between actual performance and the Performance Target Report is compared and analyzed, and ALM charts, Gap reports, and cash flow maps are prepared and used to analyze mismatches between existing assets and liabilities. These charts show the contractual maturity, interest rates, and balances of fixed-rate assets and liabilities as well as clearly projecting future trends in these balances. In addition, through profit-loss simulations and asset maturity ladder analysis, ORIX can ascertain the influence of future market movements on its performance and, based on interest rate forecasts, determine marketing divisions' internal costs and treasury departments' procurement policies. This allows the Company to maximize its spreads and ROA and engage in efficient funding activities.

▶ In addition, from April 1, 1999, ORIX began using a new ALM system that enables prompt access to quantitative indicators of interest rate risks.

(3) Interest Rate Risk Management

▶ Changes in market interest rates or in the relationships between short-term and long-term market interest rates or between different interest rate indices (i.e., basis risk) can affect the interest rates charged on interest-earning assets differently than the interest rates paid on interest-bearing liabilities, which can result in an increase in interest expense relative to finance income.

▶ The Treasury Department manages interest rate risk by changing the proportion of fixed- and floating-rate debt and by utilizing primarily interest rate swaps and, to a lesser extent, other derivative instruments to modify the repricing characteristics of existing interest-bearing liabilities. For example, a fixed-rate, fixed-term loan transaction may initially be funded by short-term floating rate liabilities, resulting in interest rate risk; however, this may subsequently be hedged by way of an interest rate swap, thus eliminating the risk initially created.

▶ Interest rate risks are managed as part of ALM activities.

▶ The Company believes it can limit the influence on profitability of interest rate trends that are contrary to projections to a temporary influence. For example, ORIX's typical financing lease contracts call for both principal and interest to be paid in equal lease payments over periods averaging only five years. Thus, even when such leases are financed with short-term funds, the Company does not require much time to change its asset-liability and interest rate structures through strategic changes in new funding operations, the use of derivatives, and other methods. In addition to the Board of Directors, ORIX's management organization includes a committee composed of the CEO and other top managers as well as departmental managers that is capable of rapid managerial decision making with regard to interest rate risks.

▶ Most overseas subsidiaries also adhere to a basic policy of matching future cash flows due with assets and liabilities, periodically producing ALM charts, and working to minimize any mismatching.

(4) Interest Rate Swaps, Options, Caps, Floors, and Collars

▶ Under interest rate swap agreements, ORIX agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. Certain agreements are combinations of interest rate and foreign currency swap transactions. ORIX pays the fixed rate and receives the floating rate under the majority of its swaps. Because the size of swap positions needed to reduce the effect of market fluctuations on net interest expense varies over time, ORIX has also entered into swaps in which it receives the fixed rate and pays the floating rate when necessary to reduce its net swap position.

▶ Interest rate options grant the purchaser, for a premium payment, the right to either purchase from or sell to the writer a specified financial instrument under agreed terms. Interest rate caps, floors, and collars require the writer to pay the purchaser, at specified future dates, the amounts, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to a notional amount.

(5) Exchange Rate Risk Management

▶ ORIX enters into foreign exchange forward contracts and foreign currency swap agreements to hedge risks that are associated with certain assets and obligations denominated in foreign currencies due to the potential for changes in foreign currency exchange rates. Foreign exchange forward contracts and foreign currency swap agreements are agreements between two parties to purchase and sell a foreign currency for a price specified on the contract date, with delivery and settlement in the future. In principle, ORIX hedges foreign currency risk related to its foreign currency denominated marketing transactions and overseas investments, and overseas Group companies procure funds locally. However, certain positions involving foreign currency risk are managed individually.

(6) Derivatives Management

▶ ORIX enters into and manages derivatives transactions while strictly complying with authorization limits determined by the Board of Directors and with internal management regulations. Departments executing transactions are separated from administrative management departments to create a system of internal checks and restraints. Each quarter, departments executing transactions calculate the fair values of transactions with individual counterparties and transactions with counterparties of given credit ratings. In addition, these departments make other calculations as part of a management system capable of responding rapidly to sharp market changes and other unexpected developments. Administrative management departments undertake the external verification of all transactions and perform checks to ensure the absence of discrepancies in the terms of the transactions. In addition, each quarter these departments prepare reports that include compilations of such information as the notional principal associated with each type of transaction and each counterparty and present this report to the director responsible for the Treasury Department. Further, the Audit Office audits derivatives-related accounts and performs checks to ensure that relevant regulations are observed.

8. Impact of the Year 2000 (Y2K) Problem

ORIX's State of Y2K Readiness

▶ In 1996, the ORIX Group's computer systems management company, ORIX Computer Systems Corporation, formed a project team to address the Y2K problem. This project team has worked to counter the potential impact of the problem on ORIX's key operational and information management systems. Implementation for mainframe systems was completed in March 1999. During June and July 1999, plans call for testing the operations of systems with their clocks set to read January 1, 2000. In general, countermeasures for other principal systems have been completed. In March 1999, the Year 2000 Project Department was formed to extend the scope of evaluation and countermeasure implementation programs to encompass the entire ORIX Group. The new department is headed by ORIX's director responsible for general affairs, and the other members of the department are from related departments within Group companies.

▶ The Year 2000 Project Department has developed detailed plans for making and testing modifications to our key computer systems as well as equipment unrelated to information systems that has embedded chips to ensure that both the systems and equipment are Y2K compliant. Based on these plans, ORIX divided its information systems into three categories:

• such mainframe systems as accounting and marketing support systems;

• such systems necessary for the operations of individual departments as the Accounting Department's accounting and settlement systems and the Treasury Department's systems for managing borrowings, derivatives, and other financial products; and

• the diverse business management and administration systems that various ORIX sections have introduced for use on PCs.

▶ Each of these categories encompasses various subcategories. To facilitate the implementation of Y2K countermeasure plans, the Year 2000 Project Department has prioritized the subcategories in view of their importance to related systems and the ORIX Group's overall operations. The department is closely checking the implementation of countermeasures for each such subcategory.

▶ Currently, countermeasure implementation is proceeding on schedule.

▶ With regard to operating lease assets, ORIX has investigated the potential impact of the Y2K problem and proceeded to make improvements when such impact appears likely. Although the lessees of aircraft, vessels, and other operating lease assets bear responsibility for the operation of those assets, ORIX is assisting those lessees when necessary.

▶ ORIX has also been liaising with its banks, vendors, and other important third parties to gain a grasp of their Y2K countermeasure status. To date, the questionnaire responses received from such third parties and information obtained from other sources have not revealed any significant Y2K compliance issue liable to significantly affect ORIX's operations. However, as ORIX cannot independently verify and guarantee the effectiveness of third parties' Y2K countermeasures, it may request the implementation of countermeasures if necessary.

Cost of Y2K Countermeasures

▶ The expenses associated with Y2K countermeasures to date have not had a significant influence on ORIX's performance. On a consolidated basis, such expenses have amounted to approximately ¥900 million ($8 million), and most of these expenses were incurred and paid prior to March 31, 1999.

▶ This estimate of expenses principally reflects the cost of outside support for the analysis, remediation, and testing of software as well as the cost of procuring new equipment and software. The estimate does not include the cost of employee-hours spent on Y2K countermeasures in the course of the employees' regular work activities.

▶ Based upon its investigations to date, ORIX anticipates that the expenses associated with future Y2K countermeasure activities will be at such a low level that it will not have a significant influence on the Company's performance.

Y2K Contingency Plan

▶ ORIX is developing a contingency plan designed to cope with potentially damaging unforeseen Y2K occurrences that have a significant likelihood of emerging, and this plan is scheduled to be finalized by June 30, 1999.

▶ Among the scenarios the contingency plan addresses are a disruption of bank settlement systems on the first business day of 2000 that would prevent the timely deposit or receipt of lease and other payments or the confirmation of such payments. The contingency plan is to determine specific countermeasures for this and other scenarios. The principal elements of the plan are as follows:

• the identification of systems and equipment that may be associated with Y2K problems;

• the definition, classification, and analysis of diverse corporate activities that could be disrupted due to Y2K problems;

• measures for reducing Y2K-related risks in advance; and

• emergency measures for sustaining operations following the emergence of problems as well as schedules for resuming operations in the unlikely case of the interruption of operations.

▶ As described, ORIX is conscientiously making its best efforts to counter potential Y2K problems. Currently, the Company cannot guarantee that its Y2K analysis will be completed on a timely basis and recognizes that it is impossible to guarantee that necessary costs and countermeasures associated with the Y2K will not have a significant influence on its operations, prospects, profitability, and financial position.

9. Corporate Governance

(1) Reform of Management Structure

▶ Aiming to maximize long-term gains on shareholders' value, ORIX is implementing various reforms of its management structure.

▶ The Advisory Board established in June 1997 includes experienced and resourceful individuals from outside the Company as well as management specialists. The board has provided objective opinions regarding many aspects of ORIX's operations, and management has worked to make effective use of their suggestions.

▶ In June 1998, the Company introduced a Corporate Executive Officer system to help separate strategic decision-making functions from day-to-day administrative operations. As a result, the Board of Directors now bears responsibility for strategic management decisions, while Corporate Executive Officers are charged with the task of implementing those decisions. Regarding deliberations and decisions related to administrative operations, ORIX eliminated its Managing Directors' Committee and Credit Committee, which comprised directors, and established its Investment and Credit Committee, which handles deliberations and decisions related to important investments, business development programs, and credit. In addition, ORIX set up its Group Corporate Executive Officer Committee to promote the sharing of management information.

▶ From June 1999, ORIX intends to phase out its Advisory Board and reduce the number of members of the Board of Directors. Plans also call for inviting the three Advisory Board members to fill two positions as independent directors and one position as an advisor to the Board.

▶ To ensure greater management transparency, ORIX will establish its Executive Appointment and Compensation Committee, which will operate as a support unit for the Board of Directors. The committee will comprise independent directors as well as ORIX's internally appointed representative directors, and the chairman of the committee is to be appointed by agreement of the independent directors. The committee will recommend director, auditor, and corporate executive officer candidates as well as an executive remuneration system and evaluation in addition to executive remuneration and other compensation scales.

▶ ORIX is confident that these changes will increase the clarity of corporate responsibilities and boost managerial efficiency while ensuring greater corporate transparency and objectivity. As a result, the changes are expected to promote the attainment of the Company's ultimate goal, which includes maintaining a high level of accountability to shareholders and promoting a rise in the value of its shareholders' equity over the long term.

(2) ORIX Value Added (OVA)

▶ In April 1999, the Company introduced the OVA concept for internal use as an indicator of management efficiency. The OVA system is an innovative scheme that assigns portions of shareholders' equity to individual corporate divisions commensurate with the magnitude of risks associated with that division's operations. The system thereby clarifies the level of efficiency with which capital is employed in each division.

▶ The OVA concept provides standards for calculating the amount of risk capital allocated to each regional or business division of ORIX's operations in which the Company has assigned executive responsibility to a corporate executive officer or a Group company president. To determine the appropriate amount of risk capital, data on divisional earnings during the previous five years is used to calculate the volatility of profitability and quantify the associated risk. The Company's average of ¥313.8 billion in shareholders' equity during the last year of that period is assigned to divisions based on the size of the observed volatility of profitability, so that divisions that have recorded greater fluctuations in their profitability are allotted larger portions of capital. Divisional profitability is calculated by adjusting the value of net income after taxes in light of such factors as the size of interdivisional transactions and internal profit.

▶ The hurdle rate for capital utilization efficiency represents an assumed rate of return expected by shareholders on capital.

▶ Each division is thus encouraged to boost the level of its profitability relative to the associated risks and ultimately raise the level of OVA itself. Intermediate indicators for use in attaining the OVA include return on risk adjusted capital (RORAC: net income/risk capital), return on assets (ROA: net income/total assets), and the degree of risk (risk capital/total assets).

OVA = divisional net income – (risk capital × hurdle rate)
= risk capital × (RORAC – hurdle rate)

▶ To increase OVA, each division must elevate its ROA by improving profitability or reducing its degree of risk. At times when a division's operating environment calls for emphasis to be placed on growth in operating assets, ROA may show a short-term decline. Similarly, a division may consider business strategies that call for raising the degree of risk to increase profit and OVA over the medium-to-long term. Moreover, it is recognized that risks may vary depending on the effects of such diverse factors. These range from such macroeconomic factors as economic fluctuations, new government policies, and changes in tax systems to such microeconomic factors as the profitability of operating assets and customer creditworthiness associated with the type of transactions and business undertaken by individual divisions. Each division's success in analyzing these risks and drafting appropriate strategies that take the risks into account will be measured in terms of OVA. Moreover, examination of trends in OVA over time will enable the Company to monitor the growth potential of operations in individual business sectors. When operations are shown to produce insufficient levels of OVA, ORIX will consider withdrawing from them.

TEN-YEAR SUMMARY

ORIX Corporation and Subsidiaries

	Years Ended March 31	
	1999	1998
Financial Position		
Investment in Direct Financing Leases	**¥1,952,842**	¥2,186,022
Installment Loans	**1,761,887**	1,794,825
Investment in Operating Leases	**411,156**	435,066
Investment in Securities	**576,206**	500,449
Other Operating Assets	**73,345**	65,838
Operating Assets	**¥4,775,436**	¥4,982,200
Allowance for Doubtful Receivables on Direct Financing Leases and Possible Loan Losses	**¥ (132,606)**	¥ (145,741)
Allowance/Investment in Direct Financing Leases and Installment Loans	**3.6%**	3.7%
Short-Term Debt and Long-Term Debt	**¥4,221,011**	¥4,621,053
Shareholders' Equity	**¥ 327,843**	¥ 313,821
Total Assets	**¥5,347,636**	¥5,574,309
Revenues and Expenses		
Total revenues	**¥ 593,941**	¥ 507,143
Interest expense	**¥ 140,846**	¥ 142,177
Selling, general and administrative expenses	**¥ 82,395**	¥ 79,671
Income before Income Taxes	**¥ 27,315**	¥ 38,412
Net Income	**¥ 25,621**	¥ 23,731
Operations		
Direct Financing Leases:		
New receivables added	**¥1,076,387**	¥1,227,719
New equipment acquisitions	**¥ 913,221**	¥1,093,519
Installment Loans:		
New loans added	**¥ 706,758**	¥ 715,030
Operating Leases:		
New equipment acquisitions	**¥ 92,272**	¥ 98,566
Debt Securities and Funds in Trust:		
New securities added	**¥ 302,035**	¥ 217,225
Number of Employees	**9,037**	8,203

Notes: 1. In fiscal 1992, the Company reversed a ¥27,000 million reserve for interest rate fluctuations provided in prior fiscal years.
2. In fiscal 1990, new receivables added and new equipment acquisitions of direct financing leases and operating leases included increases of ¥321,358 million, ¥266,180 million and ¥30,343 million, respectively, as a result of the acquisitions of ORIX Commercial Alliance Corporation and others. Also, in fiscal 1998 new loans added and new securities added included increases of ¥18,999 million and ¥34,189 million, respectively, as a result of the acquisition of ORIX Trust and Banking Corporation.
3. Total revenues have changed from those previously shown in this table due to a reclassification in the consolidated statements of income.

Millions of yen

Years Ended March 31

1997	1996	1995	1994	1993	1992	1991	1990
¥2,067,616	¥1,913,836	¥1,715,177	¥1,691,730	¥1,688,374	¥1,656,677	¥1,627,211	¥1,631,000
1,700,697	1,628,916	1,619,397	1,687,475	1,799,569	1,988,033	2,373,204	1,993,946
465,737	413,419	342,058	298,653	229,432	191,811	149,588	133,722
434,488	345,935	278,807	258,133	260,187	342,521	355,990	349,989
58,193	55,161	42,162	41,858	39,833	20,053	18,617	20,051
¥4,726,731	¥4,357,267	¥3,997,601	¥3,977,849	¥4,017,395	¥4,199,095	¥4,524,610	¥4,128,708
¥ (117,567)	¥ (81,886)	¥ (47,400)	¥ (48,806)	¥ (49,292)	¥ (51,068)	¥ (48,937)	¥ (44,413)
3.1%	2.3%	1.4%	1.4%	1.4%	1.4%	1.2%	1.2%
¥4,217,334	¥3,986,809	¥3,755,538	¥3,770,731	¥3,928,622	¥4,089,587	¥4,677,456	¥4,214,318
¥ 308,584	¥ 276,251	¥ 238,050	¥ 230,081	¥ 218,839	¥ 213,544	¥ 200,190	¥ 189,652
¥5,089,975	¥4,751,756	¥4,405,556	¥4,371,789	¥4,480,854	¥4,646,609	¥5,212,365	¥4,723,670
¥ 428,294	¥ 382,603	¥ 362,702	¥ 362,988	¥ 405,457	¥ 443,109	¥ 472,811	¥ 337,245
¥ 130,743	¥ 138,394	¥ 167,937	¥ 192,237	¥ 239,241	¥ 306,235	¥ 340,685	¥ 211,447
¥ 70,902	¥ 61,569	¥ 58,561	¥ 59,639	¥ 63,209	¥ 63,429	¥ 54,109	¥ 44,089
¥ 36,889	¥ 35,027	¥ 33,629	¥ 34,231	¥ 36,805	¥ 40,439	¥ 40,482	¥ 40,006
¥ 19,044	¥ 18,003	¥ 17,072	¥ 18,031	¥ 18,931	¥ 20,381	¥ 20,109	¥ 19,307
¥1,050,849	¥1,022,267	¥ 888,931	¥ 787,570	¥ 903,164	¥ 921,857	¥ 879,534	¥1,203,561
¥ 886,806	¥ 847,774	¥ 731,632	¥ 652,816	¥ 718,514	¥ 713,808	¥ 670,669	¥ 959,719
¥ 593,074	¥ 503,627	¥ 539,145	¥ 583,158	¥ 606,919	¥1,054,862	¥3,266,706	¥2,304,655
¥ 92,932	¥ 95,802	¥ 97,895	¥ 121,726	¥ 106,621	¥ 85,436	¥ 54,751	¥ 78,197
¥ 135,324	¥ 114,199	¥ 75,551	¥ 107,625	¥ 49,796	¥ 33,447	¥ 51,606	¥ 65,189
7,594	6,991	6,723	6,731	6,924	6,842	6,233	5,711

CONSOLIDATED BALANCE SHEETS

ORIX Corporation and Subsidiaries   March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars
ASSETS	**1999**	1998	**1999**
Cash and Cash Equivalents	**¥ 254,540**	¥ 268,215	**$ 2,149,286**
Time Deposits	**8,861**	10,535	**74,821**
Investment in Direct Financing Leases	**1,952,842**	2,186,022	**16,489,420**
Installment Loans	**1,761,887**	1,794,825	**14,877,033**
Allowance for Doubtful Receivables on Direct Financing Leases and Possible Loan Losses	**(132,606)**	(145,741)	**(1,119,699)**
Investment in Operating Leases	**411,156**	435,066	**3,471,722**
Investment in Securities	**576,206**	500,449	**4,865,372**
Other Operating Assets	**73,345**	65,838	**619,311**
Investment in Affiliates	**77,160**	95,087	**651,524**
Other Receivables	**67,540**	67,558	**570,295**
Advances	**62,079**	101,282	**524,183**
Prepaid Expenses	**24,584**	21,068	**207,583**
Office Facilities, at Cost, Net of Accumulated Depreciation (¥17,482 million ($147,615 thousand) in 1999 and ¥16,121 million in 1998)	**78,355**	37,142	**661,614**
Other Assets	**131,687**	136,963	**1,111,938**
	¥5,347,636	¥5,574,309	**$45,154,403**

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 1999	Millions of yen 1998	Thousands of U.S. dollars 1999
Short-Term Debt	**¥2,184,983**	¥2,576,483	**$18,449,574**
Trade Notes and Payables	**218,288**	194,154	**1,843,182**
Accrued Expenses	**63,364**	65,848	**535,034**
Policy Liabilities	**356,541**	221,455	**3,010,563**
Income Taxes:			
Current	**9,054**	4,116	**76,450**
Deferred	**106,497**	113,531	**899,240**
Deposits from Lessees	**45,038**	40,331	**380,292**
Long-Term Debt	**2,036,028**	2,044,570	**17,191,826**
Total liabilities	**5,019,793**	5,260,488	**42,386,161**
Commitments and Contingent Liabilities			
Shareholders' Equity:			
Common stock, par value ¥50 per share: authorized—259,000,000 shares, outstanding—64,870,299 shares in 1999 and 1998	**20,180**	20,180	**170,396**
Additional paid-in capital	**37,464**	37,303	**316,339**
Legal reserve	**1,860**	1,750	**15,705**
Retained earnings	**298,684**	274,144	**2,522,030**
Accumulated other comprehensive loss	**(27,550)**	(18,079)	**(232,628)**
Treasury stock, at cost, 314,247 shares in 1999 and 168,213 shares in 1998	**(2,795)**	(1,477)	**(23,600)**
	327,843	313,821	**2,768,242**
	¥5,347,636	¥5,574,309	**$45,154,403**

CONSOLIDATED STATEMENTS OF INCOME

ORIX Corporation and Subsidiaries For the Years Ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Revenues:				
Direct financing leases	**¥143,170**	¥149,369	¥136,661	**$1,208,900**
Operating leases	**92,407**	97,668	91,971	**780,267**
Interest on loans and investment securities	**100,480**	95,033	89,487	**848,434**
Brokerage commissions and gains on investment securities	**7,381**	8,071	4,231	**62,324**
Life insurance premiums and related investment income	**196,259**	126,031	82,296	**1,657,173**
Interest income on deposits	**6,695**	3,429	2,151	**56,531**
Other operating revenues	**47,549**	27,542	21,497	**401,494**
Total revenues	**593,941**	507,143	428,294	**5,015,123**
Expenses:				
Interest expense	**140,846**	142,177	130,743	**1,189,276**
Depreciation—operating leases	**57,405**	59,222	55,014	**484,717**
Life insurance costs	**186,775**	115,876	73,886	**1,577,092**
Other operating expenses	**31,522**	13,841	14,509	**266,166**
Selling, general and administrative expenses	**82,395**	79,671	70,902	**695,727**
Provision for doubtful receivables and possible loan losses	**52,489**	58,186	57,748	**443,207**
Write-downs of securities	**11,077**	858	291	**93,532**
Foreign currency transaction loss (gain), net	**390**	6,271	(1,361)	**3,293**
Total expenses	**562,899**	476,102	401,732	**4,753,010**
Operating Income	**31,042**	31,041	26,562	**262,113**
Equity in Net Income (Loss) of Affiliates and Gains on Sales of Affiliates (¥3,978 million ($33,589 thousand) gain in 1999, ¥6,825 million gain in 1998 and ¥4 million loss in 1997)	**(3,727)**	7,371	10,327	**(31,470)**
Income before Income Taxes	**27,315**	38,412	36,889	**230,643**
Provision for Income Taxes	**1,694**	14,681	17,845	**14,304**
Net Income	**¥ 25,621**	¥ 23,731	¥ 19,044	**$ 216,339**

	Yen			U.S. dollars
Amounts per Share of Common Stock:				
Net income (basic and diluted earnings per share)	**¥396.52**	¥366.40	¥293.57	**$3.35**
Cash dividends	**15.00**	15.00	15.00	**0.13**

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

ORIX Corporation and Subsidiaries For the Years Ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Common Stock	**¥ 20,180**	¥ 20,180	¥ 20,180	**$ 170,396**
Additional Paid-in Capital:				
Beginning balance	**¥ 37,303**	¥ 37,093	¥ 37,093	**$ 314,979**
Compensation cost of stock option granted	**—**	49	—	**—**
Value ascribed to warrants attached to 0.1% bonds issued	**—**	161	—	**—**
Value ascribed to warrants attached to 1.925% bonds issued	**161**	—	—	**1,360**
Ending balance	**¥ 37,464**	¥ 37,303	¥ 37,093	**$ 316,339**
Legal Reserve:				
Beginning balance	**¥ 1,750**	¥ 1,640	¥ 1,530	**$ 14,777**
Transfer from retained earnings	**110**	110	110	**928**
Ending balance	**¥ 1,860**	¥ 1,750	¥ 1,640	**$ 15,705**
Retained Earnings:				
Beginning balance	**¥274,144**	¥251,496	¥233,535	**$2,314,819**
Cash dividends	**(971)**	(973)	(973)	**(8,200)**
Transfer to legal reserve	**(110)**	(110)	(110)	**(928)**
Net income	**25,621**	23,731	19,044	**216,339**
Ending balance	**¥298,684**	¥274,144	¥251,496	**$2,522,030**
Accumulated Other Comprehensive Loss:				
Beginning balance	**¥ (18,079)**	¥ (1,825)	¥ (16,087)	**$ (152,656)**
Net increase (decrease) in net unrealized gains on investment in securities	**1,442**	(9,931)	(1,213)	**12,176**
Net increase (decrease) in cumulative translation adjustments	**(10,913)**	(6,323)	15,475	**(92,148)**
Ending balance	**¥ (27,550)**	¥ (18,079)	¥ (1,825)	**$ (232,628)**
Treasury Stock:				
Beginning balance	**¥ (1,477)**	¥ —	¥ —	**$ (12,472)**
Purchases of treasury stock	**(1,318)**	(1,477)	—	**(11,128)**
Ending balance	**¥ (2,795)**	¥ (1,477)	¥ —	**$ (23,600)**
Total Shareholders' Equity:				
Beginning balance	**¥313,821**	¥308,584	¥276,251	**$2,649,843**
Increase, net	**14,022**	5,237	32,333	**118,399**
Ending balance	**¥327,843**	¥313,821	¥308,584	**$2,768,242**
Summary of Comprehensive Income:				
Net income	**¥ 25,621**	¥ 23,731	¥ 19,044	**$ 216,339**
Other comprehensive income (loss)	**(9,471)**	(16,254)	14,262	**(79,972)**
Comprehensive income	**¥ 16,150**	¥ 7,477	¥ 33,306	**$ 136,367**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

ORIX Corporation and Subsidiaries For the Years Ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Cash Flows from Operating Activities:				
Net income	**¥ 25,621**	¥ 23,731	¥ 19,044	**$ 216,339**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation—operating leases	**57,405**	59,222	55,014	**484,717**
Provision for doubtful receivables and possible loan losses	**52,489**	58,186	57,748	**443,207**
Increase in policy liabilities	**135,086**	72,432	40,550	**1,140,640**
Deferred income taxes, net	**(10,346)**	1,664	4,875	**(87,360)**
Equity in net income (loss) of affiliates and gains on sales of affiliates	**3,727**	(7,371)	(10,327)	**31,470**
Amortization of initial direct costs and loan origination costs	**27,076**	26,408	22,977	**228,625**
Gains on sales of available-for-sale securities	**(5,276)**	(5,775)	(906)	**(44,549)**
Write-downs of securities	**11,077**	858	291	**93,532**
Increase (decrease) in accrued expenses	**(898)**	12,461	5,011	**(7,583)**
Increase (decrease) in deposits from lessees	**(4,477)**	2,053	6,051	**(37,803)**
Other, net	**(2,480)**	2,691	(2,427)	**(20,941)**
Net cash provided by operating activities	**289,004**	246,560	197,901	**2,440,294**
Cash Flows from Investing Activities:				
Purchases of lease equipment, including advance payments	**(1,034,901)**	(1,221,978)	(1,020,093)	**(8,738,504)**
Principal payments received under direct financing leases	**894,692**	859,795	829,657	**7,554,606**
Net proceeds from securitization of lease receivables	**224,960**	44,127	—	**1,899,519**
Installment loans made to customers	**(706,758)**	(696,031)	(593,074)	**(5,967,728)**
Principal collected on installment loans	**635,022**	614,779	548,110	**5,362,003**
Proceeds from sales of operating lease assets	**45,150**	60,032	29,722	**381,238**
Investment in and dividends received from affiliates, net	**(1,592)**	(11,676)	(1,721)	**(13,443)**
Proceeds from sales of affiliates	**10,877**	14,611	214	**91,843**
Purchases of available-for-sale securities	**(301,575)**	(198,693)	(145,957)	**(2,546,441)**
Proceeds from sales of available-for-sale securities	**182,338**	177,832	66,926	**1,539,627**
Maturities of available-for-sale securities	**38,345**	5,634	6,837	**323,778**
Maturities of held-to-maturity securities	**—**	—	5,860	**—**
Purchases of other securities	**(54,902)**	(92,078)	(6,158)	**(463,582)**
Proceeds from sales of other securities	**46,242**	67,754	7,831	**390,458**
Other, net	**(3,944)**	(7,349)	(9,417)	**(33,301)**
Net cash used in investing activities	**(26,046)**	(383,241)	(281,263)	**(219,927)**
Cash Flows from Financing Activities:				
Repayment of short-term debt, net	**(278,186)**	(68,667)	(418,996)	**(2,348,949)**
(Repayment of) proceeds from commercial paper, net	**(76,143)**	90,189	556,254	**(642,937)**
Proceeds from long-term debt	**567,166**	620,973	277,074	**4,789,040**
Repayment of long-term debt	**(525,534)**	(321,043)	(364,271)	**(4,437,507)**
Net increase in deposits due to customers	**45,353**	—	—	**382,952**
Purchases of treasury stock	**(1,318)**	(1,477)	—	**(11,128)**
Dividends paid	**(971)**	(973)	(973)	**(8,200)**
Other, net	**161**	210	—	**1,360**
Net cash provided by (used in) financing activities	**(269,472)**	319,212	49,088	**(2,275,369)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(7,161)**	(3,207)	2,224	**(60,467)**
Net Increase (Decrease) in Cash and Cash Equivalents	**(13,675)**	179,324	(32,050)	**(115,469)**
Cash and Cash Equivalents at Beginning of Year	**268,215**	88,891	120,941	**2,264,755**
Cash and Cash Equivalents at End of Year	**¥ 254,540**	¥ 268,215	¥ 88,891	**$2,149,286**

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

1. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

(a) Basis of presenting financial statements

The Company and its domestic subsidiaries maintain their books in conformity with Japanese income tax laws and accounting practices, which differ in certain respects from accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect certain adjustments. The principal adjustments relate to accounting for direct financing leases (see (e)), additional provisions for doubtful receivables on direct financing leases and possible loan losses, impairment of long-lived assets and long-lived assets to be disposed of, translation of current and non-current assets and liabilities denominated in foreign currencies at the exchange rates prevailing as of each balance sheet date, adoption of the straight-line method of depreciation for operating lease equipment, accounting for pension plans, recording of interest income on time deposits on an accrual basis, accounting for investment in securities, deferral of life insurance policy acquisition cost and an additional provision for policy liabilities, and a reflection of the income tax effect on such adjustments and other temporary differences.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Investments in 20%–50% owned affiliates are accounted for by using the equity method.

Intercompany balances, transactions and unrealized profits have been eliminated in consolidation.

The excess of cost over the underlying equity at acquisition dates of investments in subsidiaries and affiliates is being amortized over periods ranging from 5 to 25 years.

(c) Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Foreign currencies translation

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

(e) Recognition of revenues

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

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

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

Non-accrual policy—Revenues on direct financing leases and installment loans are no longer accrued at the time when principal or interest is past due 180 days or more, or when management believes their collectibility is doubtful.

Operating leases—Operating lease assets are recorded at cost and are depreciated over their estimated useful lives mainly on a straight-line basis. Gains and losses arising from dispositions of operating lease assets are included in operating lease revenues.

In fiscal 1997, two subsidiaries shortened the estimated useful lives of certain transportation equipment and measurement instruments as a result of studies of the effect of obsolescence and other pertinent economic factors that may have an impact on the remaining useful lives of these assets. The effect of this change in estimate was to increase depreciation expense in fiscal 1997 by ¥4,472 million.

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

Life insurance—Life insurance premiums are reported as earned when due from policyholders.

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

The allowance for doubtful receivables on direct financing leases and possible loan losses is maintained at a level which, in the judgment of management, is adequate to provide for potential losses on lease and loan portfolios that can be reasonably anticipated. The allowance is increased by provisions charged to income and is decreased by charge-offs, net of recoveries. In evaluating the adequacy of the allowance, management considers various factors, including current economic conditions, credit concentrations or deterioration in pledged collateral, historical loss experience, delinquencies and non-accruals. Receivables are charged off when, in the opinion of management, the likelihood of any future collection is believed to be minimal.

Under FASB Statement No. 114 (“Accounting by Creditors for Impairment of a Loan”), impaired loans shall be measured based on the present value of expected future cash flows discounted at the loan’s original effective interest rate. As a practical expedient, impairment is measured based on the loan’s observable market price or the fair value of the collateral if the loan is collateral dependent. Certain loans, such as large groups of smaller-balance homogeneous loans (in the Company’s case, these include individual housing loans and card loans) and lease receivables, are exempt from this measuring. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

(g) Investment in securities

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

Available-for-sale securities are reported at fair value. In principle, the Company charges losses related to securities for which the market price has been below the acquisition cost for more than one year against income. However, if the Company has a significant long-term business relationship with the investee, management considers the probability of the market value recovering within the following 12 months. As part of this review, the investee’s operating results, net asset value and future performance forecast as well as general market conditions are taken into consideration. If management believes, based on this review, that the market value may realistically be expected to recover, the loss will continue to be classified as temporary. Temporary declines in market value are recorded through other comprehensive income (loss), net of applicable income taxes.

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

(h) Derivative financial instruments

Hedge criteria include demonstrating how the hedge will reduce risk, identifying the asset or liability being hedged and citing the time horizon being hedged.

Trading instruments—Certain subsidiaries use futures, forward and option contracts and other similar types of contracts based on interest rates, foreign exchange rates, equity indices and other. Trading instruments used for trading purposes are recorded in the consolidated balance sheets at fair value at the reporting date. Gains, losses and unrealized changes in fair values from trading instruments are recognized in brokerage commissions and gains on investment securities in the year in which they occur.

Risk management instruments—The Company and certain subsidiaries primarily utilize foreign currency swaps and forward exchange contracts to hedge the exposure to foreign currency fluctuations associated with certain foreign currency assets and liabilities. Gains and losses in the forward exchange contracts and foreign currency swaps designated as hedges are recognized based on changes in the value of the related hedged asset or liability. Realized or unrealized gains or losses in instruments that hedge net capital exposures are recorded in shareholders' equity as foreign currency translation adjustments, which is a part of accumulated other comprehensive loss. All other foreign exchange contracts, including the contracts for which the hedged asset or liability has been sold or otherwise disposed of, are marked to market and gains or losses are charged to earnings. The Company and certain subsidiaries also enter into interest rate swap agreements and purchase interest rate option contracts (caps, floors and collars) to reduce interest rate risks and to modify the interest rate characteristics of financing transactions. For these hedging instruments, the accrual method of accounting is used where interest income or expense on the hedging instruments is accrued and recorded as an adjustment to the interest income or expense related to the hedged item. Premiums paid for interest rate options are deferred as other assets and amortized to interest income over the term of the options.

Notional amounts and credit exposures of derivatives—The notional amounts of derivatives do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the derivatives contracts. The Company and certain subsidiaries are exposed to credit-related losses in the event of non-performance by counterparties.

(i) Income taxes

Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. Deferred income tax expenses or credits are based on the changes in the asset or liability from period to period. Deferred income tax assets have been recognized on the net operating loss carryforwards of certain subsidiaries.

(j) Policy liabilities

Policy liabilities of the life insurance operations for future policy benefits are computed by the net level premium method, based upon estimated future investment yields, withdrawals, mortality and other assumptions appropriate at the time the policies were issued. The average rates of assumed investment yields are 3.7%, 4.4% and 5.0% for fiscal 1999, 1998 and 1997, respectively.

(k) Capitalization of interest costs

The Company and certain subsidiaries capitalized interest costs of ¥966 million ($8,157 thousand), ¥1,041 million and ¥602 million in fiscal 1999, 1998 and 1997, respectively, related to specific long-term development projects.

(l) Stock splits

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

In the United States, stock splits in comparable circumstances are considered to be stock dividends and are accounted for by transferring from retained earnings amounts equal to the fair market value of the shares issued and by increasing additional paid-in capital by the excess of the market value over par value of the shares issued. Had such stock splits in prior years been accounted for in this manner, additional paid-in capital as of March 31, 1999 would have increased by approximately ¥24,674 million ($208,342 thousand) with a corresponding decrease in retained earnings; total shareholders' equity would have remained unchanged.

(m) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits placed with banks and securities purchased under resale agreements with original maturities of three months or less.

(n) Other operating assets

Other operating assets consist primarily of business assets, including golf courses, hotels and training facilities.

(o) Other receivables

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

(p) Advances

Advances include advance payments made in relation to purchases of assets to be leased, advance and/or progress payments for acquisition of real estate for sale.

(q) Office facilities

Office facilities are stated at cost less accumulated depreciation. Depreciation is calculated on a declining-balance basis or straight-line basis over estimated useful lives.

(r) Other assets

Other assets consist primarily of the unamortized excess of purchase prices over the net assets acquired in acquisitions of ¥14,431 million ($121,853 thousand) and ¥14,234 million as of March 31, 1999 and 1998, respectively, deferred insurance acquisition costs, which are amortized over the contract periods, and leasehold deposits.

(s) Impairment of long-lived assets

As further discussed in Note 7, effective April 1, 1996, the Company and its subsidiaries adopted FASB Statement No. 121 ("Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of"). This statement requires that long-lived assets and certain identifiable intangibles to be held and used by the companies be reviewed, by using undiscounted future cash flows expected to be generated by the assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such assets are to be reported at the lower of the carrying amount or fair value less cost to sell.

(t) Advertising

The costs of advertising are expensed as incurred.

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

As a convenience to readers, the consolidated financial statements are also presented in U.S. dollars by arithmetically translating all Japanese yen amounts at ¥118.43 to U.S.$1, the exchange rate at March 31, 1999.

(v) New accounting pronouncement

In June 1998, FASB Statement No. 133 ("Accounting for Derivative Instruments and Hedging Activities") was issued. FASB Statement No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge. This Statement amends portions of FASB Statements No. 52 and No. 107. It supersedes FASB Statements No. 80, No. 105 and No. 119. This Statement is effective for fiscal years beginning after June 15, 1999. However, the exposure draft of proposed Statement of Financial Accounting Standards ("Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133") was issued on May 20, 1999, to defer the effective date of FASB Statement No. 133 to fiscal years beginning after June 15, 2000. The expected impact of the adoption of this Statement is not known and cannot be reasonably estimated until further study is completed.

(w) Reclassifications

Certain amounts in the 1998 and 1997 consolidated financial statements have been reclassified to conform with the 1999 presentation.

2. ACQUISITIONS

In June 1997, the Company purchased contract receivables of ¥288 billion from Crown Leasing Corporation, which is in bankruptcy, consisting of direct financing leases of ¥257 billion and loan contracts of ¥31 billion. The purchase price was ¥254 billion, which was adjusted based on the outstanding remaining contract receivables as of May 31, 1997 and other conditions provided for in the agreement.

On March 31, 1998, the Company agreed in principle to acquire all the shares of common stock of Yamaichi Trust & Bank, Ltd., the name of which was subsequently changed to ORIX Trust and Banking Corporation, from Yamaichi Securities Co., Ltd. on the closing date of April 28, 1998. On April 28, 1998, as scheduled, the Company completed the share acquisition of Yamaichi Trust & Bank, Ltd., which had approximately ¥68 billion ($574 million) in assets. This acquisition was accounted for under the purchase method, and net assets acquired were ¥13.5 billion ($114 million). The balance sheet of Yamaichi Trust & Bank, Ltd. as of March 31, 1998 was included in the consolidated financial statements, as the acquisition was substantially completed by that date. The excess of the net assets acquired over the purchase price, was approximately ¥4.4 billion ($37 million), which is being amortized over five years on a straight-line basis.

3. CASH FLOW INFORMATION

Cash payments for interest and income taxes during fiscal 1999, 1998 and 1997 were as follows:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Interest	**¥146,073**	¥135,563	¥126,669	**$1,233,412**
Income taxes	**6,904**	15,358	12,702	**58,296**

4. INVESTMENT IN DIRECT FINANCING LEASES

Investment in direct financing leases at March 31, 1999 and 1998 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Minimum lease payments receivable	**¥2,107,393**	¥2,353,294	**$17,794,419**
Estimated residual value	**52,368**	59,119	**442,185**
Initial direct costs	**29,374**	28,294	**248,028**
Unearned lease income	**(236,293)**	(254,685)	**(1,995,212)**
	¥1,952,842	¥2,186,022	**$16,489,420**

Minimum lease payments receivable (including guaranteed residual values) are due in periodic installments through 2017. At March 31, 1999, the amounts due in each of the next five years and thereafter are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2000	¥ 767,663	$ 6,481,998
2001	530,321	4,477,928
2002	357,080	3,015,114
2003	225,679	1,905,590
2004	111,170	938,698
Thereafter	115,480	975,091
Total	¥2,107,393	$17,794,419

In June 1994 and September 1993, a subsidiary securitized ¥29,284 million and ¥29,247 million principal balance of its receivables, respectively. In June 1997, the subsidiary purchased all of the remaining securitized receivables and recorded a gain of ¥460 million which resulted from a lower level of realized losses in the securitized portfolio relative to the losses anticipated by the subsidiary.

During fiscal 1998, the subsidiary entered into another securitization and a revolving securitization arrangement whereby the subsidiary securitizes selected contracts on a monthly basis. During fiscal 1999 and 1998, the subsidiary securitized ¥20,731 million ($175,049 thousand) and ¥50,656 million principal balance of its receivables, respectively. As of March 31, 1999 and 1998, the securitized receivables had an unpaid principal balance outstanding of ¥35,707 million ($301,503 thousand) and ¥44,042 million, respectively, which is excluded from the consolidated financial statements. In connection with these transactions, as of March 31, 1999 and 1998, ¥2,512 million ($21,211 thousand) and ¥2,569 million, respectively, of cash collateral was required and is included in other receivables in the consolidated balance sheets. The subsidiary's exposure is limited to the amount of the servicing assets, the excess spread assets and the balance of the required cash collateral which aggregate ¥3,824 million ($32,289 thousand) and ¥4,173 million at March 31, 1999 and 1998, respectively, and are included in other receivables in the consolidated balance sheets.

During fiscal 1999, the Company and another subsidiary securitized ¥202,806 million ($1,712,455 thousand) principal balance of their receivables. As of March 31, 1999, cash collateral and excess spread assets amounted to ¥5,018 million ($42,371 thousand) and ¥189 million ($1,596 thousand), respectively, which are included in other receivables in the consolidated balance sheets, and the securitized receivables had an unpaid principal balance outstanding of ¥199,542 million ($1,684,894 thousand), which is excluded from the consolidated balance sheets. Among these transactions, as the servicing fees adequately compensate the Company, no servicing asset or liability has been recorded.

Under a securitization introduced by the Company in fiscal 1998, the payables under securitized lease receivables of ¥194,243 million ($1,640,150 thousand) and ¥305,520 million are included in long-term debt, the minimum lease payments receivable of ¥223,179 million ($1,884,480 thousand) and ¥337,923 million are included in the consolidated balance sheets as of March 31, 1999 and 1998, respectively.

Gains and losses from the disposition of direct financing lease assets are not significant for fiscal 1999, 1998 and 1997.

5. INVESTMENT IN OPERATING LEASES

Investment in operating leases at March 31, 1999 and 1998 consists of the following:

	Weighted average useful life	Millions of yen		Thousands of U.S. dollars
	Years	**1999**	1998	**1999**
Transportation equipment	13	**¥255,745**	¥263,146	**$2,159,461**
Measuring equipment and personal computers	3	**106,889**	103,207	**902,550**
Real estate and other	40	**192,239**	198,327	**1,623,229**
		554,873	564,680	**4,685,240**
Accumulated depreciation		**(156,073)**	(141,251)	**(1,317,850)**
Net		**398,800**	423,429	**3,367,390**
Rental receivables		**12,356**	11,637	**104,332**
		¥411,156	¥435,066	**$3,471,722**

For fiscal 1999, 1998 and 1997, gains from the disposition of operating lease assets are ¥2,356 million ($19,894 thousand), ¥1,298 million and ¥2,770 million, respectively, and are included in operating lease revenues in the consolidated statements of income.

The operating lease contracts include non-cancelable lease terms ranging from one month to 10 years. The minimum future rentals on non-cancelable operating leases are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2000	¥37,831	$319,438
2001	22,073	186,380
2002	12,532	105,818
2003	5,729	48,375
2004	2,441	20,610
Thereafter	2,868	24,217
Total	¥83,474	$704,838

6. INSTALLMENT LOANS

The composition of installment loans by domicile and type of borrowers at March 31, 1999 and 1998 is as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Domestic borrowers:			
Consumers—			
Housing loans	**¥ 411,215**	¥ 426,559	**$ 3,472,220**
Card loans	**118,347**	98,187	**999,299**
Other	**43,663**	55,811	**368,682**
	573,225	580,557	**4,840,201**
Commercial—			
Real estate related companies	**188,085**	213,911	**1,588,153**
Commercial and industrial companies	**614,988**	607,952	**5,192,840**
	803,073	821,863	**6,780,993**
	1,376,298	1,402,420	**11,621,194**
Foreign commercial, industrial and other borrowers	**368,661**	377,761	**3,112,902**
Loan origination costs, net	**16,928**	14,644	**142,937**
	¥1,761,887	¥1,794,825	**$14,877,033**

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

At March 31, 1999, the contractual maturities of installment loans for each of the next five years and thereafter are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2000	¥ 491,780	$ 4,152,495
2001	229,038	1,933,953
2002	212,601	1,795,162
2003	151,253	1,277,151
2004	177,741	1,500,811
Thereafter	482,546	4,074,524
Total	¥1,744,959	$14,734,096

Included in interest on loans and investment securities in the consolidated statements of income is interest income on loans of ¥88,003 million ($743,080 thousand), ¥79,486 million and ¥74,265 million for fiscal 1999, 1998 and 1997, respectively.

7. ALLOWANCE FOR DOUBTFUL RECEIVABLES ON DIRECT FINANCING LEASES AND POSSIBLE LOAN LOSSES

Changes in the allowance for doubtful receivables on direct financing leases and possible loan losses for fiscal 1999, 1998 and 1997 are as follows:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Beginning balance	**¥145,741**	¥117,567	¥ 81,886	**$1,230,609**
Provisions charged to income	**52,489**	58,186	57,748	**443,207**
Charge-offs	**(71,349)**	(32,771)	(28,062)	**(602,457)**
Recoveries	**399**	680	2,071	**3,369**
Other*	**5,326**	2,079	3,924	**44,971**
Ending balance	**¥132,606**	¥145,741	¥117,567	**$1,119,699**

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

The balance of the allowance broken down into direct financing leases and installment loans is as follows:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Balance of allowance related to:				
Direct financing leases	**¥ 23,867**	¥ 10,510	¥ 9,780	**$ 201,528**
Installment loans	**108,739**	135,231	107,787	**918,171**
Total	**¥132,606**	¥145,741	¥117,567	**$1,119,699**

The recorded investments in loans considered impaired are ¥130,226 million ($1,099,603 thousand) and ¥182,976 million as of March 31, 1999 and 1998, respectively. Of these amounts, it was determined that a valuation allowance was required with respect to loans which had outstanding balances of ¥114,525 million ($967,027 thousand) and ¥153,529 million as of March 31, 1999 and 1998, respectively. The Company and its subsidiaries recorded a valuation allowance of ¥62,109 million ($524,436 thousand) and ¥104,921 million as of March 31, 1999 and 1998, respectively. This valuation allowance is included in the allowance for doubtful receivables on direct financing leases and possible loan losses in the accompanying consolidated balance sheets.

The average recorded investments in impaired loans for fiscal 1999, 1998 and 1997 were ¥170,838 million ($1,442,523 thousand), ¥181,074 million and ¥179,172 million, respectively.

The Company and its subsidiaries recognized interest income on impaired loans of ¥1,577 million ($13,316 thousand), ¥1,551 million and ¥1,524 million, and collected in cash interest on impaired loans of ¥1,297 million ($10,952 thousand), ¥1,288 million and ¥1,252 million in fiscal 1999, 1998 and 1997, respectively.

As of March 31, 1999 and 1998, the Company suspended income recognition pursuant to its non-accrual policy on investment in direct financing leases of ¥41,565 million ($350,967 thousand) and ¥26,081 million, and on installment loans other than impaired loans of ¥89,869 million ($758,836 thousand) and ¥84,818 million, respectively.

Effective April 1, 1996, the Company and its subsidiaries adopted FASB Statement No.121. For a description of FASB Statement No.121, see Note 1 (s). As a result, during fiscal 1999, 1998 and 1997, the Company and certain subsidiaries wrote down certain real estate development projects included in investment in operating leases and advances in the consolidated balance sheets to their fair values. These write-downs of ¥644 million ($5,438 thousand), ¥8,752 million and ¥8,021 million were charged to income as provision for doubtful receivables and possible loan losses in the consolidated statements of income for fiscal 1999, 1998 and 1997, respectively. In the previous table, these amounts are included in both provisions charged to income and charge-offs.

8. INVESTMENT IN SECURITIES

Investment in securities at March 31, 1999 and 1998 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Trading securities	**¥ 414**	¥ 46	**$ 3,496**
Available-for-sale securities	**507,510**	451,074	**4,285,316**
Held-to-maturity securities	**16,542**	3,127	**139,677**
Other securities	**51,740**	46,202	**436,883**
	¥576,206	¥500,449	**$4,865,372**

Gains and losses realized from the sale of trading securities and net unrealized holding gains or losses on trading securities are included in gains on investment securities (see Note 16). For fiscal 1999, 1998 and 1997, net unrealized holding losses on trading securities are ¥1 million ($8 thousand), ¥5 million, and ¥18 million, respectively.

During fiscal 1999, the Company and its subsidiaries sold available-for-sale securities for aggregate proceeds of ¥182,338 million ($1,539,627 thousand), resulting in gross realized gains of ¥6,801 million ($57,426 thousand) and gross realized losses of ¥1,525 million ($12,877 thousand). During fiscal 1998 and 1997, the Company and its subsidiaries sold available-for-sale securities for aggregate proceeds of ¥177,832 million and ¥66,926 million, resulting in gross realized gains of ¥9,951 million and ¥1,878 million, and gross realized losses of ¥4,176 million and ¥972 million, respectively. The cost of the securities sold was based on the average cost of each such security held at the time of the sale.

During fiscal 1999, 1998 and 1997, the Company charged losses on securities of ¥11,077 million ($93,532 thousand), ¥858 million and ¥291 million, respectively, to income for declines in market value of available-for-sale securities where the decline was classified as other than temporary.

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

The amortized cost basis amounts, gross unrealized holding gains, gross unrealized holding losses and fair values of available-for-sale and held-to-maturity securities in each major security type at March 31, 1999 and 1998 are as follows:

March 31, 1999

	Millions of yen			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Japanese and foreign government bond securities	**¥ 20,930**	**¥ 86**	**¥ (415)**	**¥ 20,601**
Japanese prefectural and foreign municipal bond securities	**20,215**	**561**	**(308)**	**20,468**
Corporate debt securities	**408,041**	**8,783**	**(18,071)**	**398,753**
Mortgage-backed and other asset-backed securities	**7,345**	**—**	**(550)**	**6,795**
Funds in trust	**5,574**	**1,016**	**(462)**	**6,128**
Equity securities	**38,202**	**21,910**	**(5,347)**	**54,765**
	¥500,307	**¥32,356**	**¥(25,153)**	**¥507,510**
Held-to-maturity:				
Corporate debt securities	**¥ 16,542**	**¥ —**	**¥ (27)**	**¥ 16,515**
	¥ 16,542	**¥ —**	**¥ (27)**	**¥ 16,515**

	Thousands of U.S. dollars			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Japanese and foreign government bond securities	**$ 176,729**	**$ 726**	**$ (3,504)**	**$ 173,951**
Japanese prefectural and foreign municipal bond securities	**170,692**	**4,737**	**(2,601)**	**172,828**
Corporate debt securities	**3,445,419**	**74,162**	**(152,588)**	**3,366,993**
Mortgage-backed and other asset-backed securities	**62,020**	**—**	**(4,644)**	**57,376**
Funds in trust	**47,066**	**8,579**	**(3,901)**	**51,743**
Equity securities	**322,570**	**185,004**	**(45,149)**	**462,425**
	$4,224,496	**$273,208**	**$(212,387)**	**$4,285,316**
Held-to-maturity:				
Corporate debt securities	**$ 139,677**	**$ —**	**$ (228)**	**$ 139,449**
	$ 139,677	**$ —**	**$ (228)**	**$ 139,449**

March 31, 1998

	Millions of yen			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Japanese and foreign government bond securities	¥ 5,762	¥ 120	¥ (103)	¥ 5,779
Japanese prefectural and foreign municipal bond securities	19,090	965	(16)	20,039
Corporate debt securities	335,769	7,443	(7,048)	336,164
Mortgage-backed and other asset-backed securities	24,346	5	(30)	24,321
Funds in trust	4,867	—	(597)	4,270
Equity securities	56,893	16,811	(13,203)	60,501
	¥446,727	¥25,344	¥(20,997)	¥451,074
Held-to-maturity:				
Corporate debt securities	¥ 3,127	¥ —	¥ (29)	¥ 3,098
	¥ 3,127	¥ —	¥ (29)	¥ 3,098

The following is a summary of the contractual maturities of debt securities classified as available-for-sale and held-to-maturity securities held at March 31, 1999:

	Millions of yen		Thousands of U.S. dollars	
	Amortized cost	Fair value	Amortized cost	Fair value
Available-for-sale:				
Due within one year	¥ 41,374	¥ 40,241	$ 349,354	$ 339,787
Due after one to five years	154,199	152,667	1,302,027	1,289,091
Due after five to ten years	179,876	180,510	1,518,838	1,524,192
Due after ten years	81,082	73,199	684,641	618,078
	¥456,531	¥446,617	$3,854,860	$3,771,148
Held-to-maturity:				
Due within one year	¥ 2,983	¥ 2,983	$ 25,188	$ 25,188
Due after one to five years	120	93	1,013	785
Due after ten years	13,439	13,439	113,476	113,476
	¥ 16,542	¥ 16,515	$ 139,677	$ 139,449

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

Included in interest on loans and investment securities in the consolidated statements of income is interest income on investment securities of ¥12,477 million ($105,353 thousand), ¥15,547 million and ¥15,222 million for fiscal 1999, 1998 and 1997, respectively.

9. INVESTMENT IN AFFILIATES

Investment in affiliates at March 31, 1999 and 1998 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Common stock, at equity value	**¥57,592**	¥71,821	**$486,296**
Loans	**19,568**	23,266	**165,228**
	¥77,160	¥95,087	**$651,524**

Certain Asia and Oceania affiliates are listed on stock exchanges. The aggregate investment in and quoted market value of those affiliates amounted to ¥1,107 million ($9,347 thousand) and ¥1,467 million ($12,387 thousand) as of March 31, 1999, and ¥5,605 million and ¥1,867 million as of March 31, 1998.

During fiscal 1999, the Company wrote down its investment in a major affiliate (Korea Development Leasing Corporation (KDLC)—26% owned) to zero as KDLC has negative equity. KDLC is a target of Korea's public workout program for financial institutions and hopes to restructure its operations in cooperation with its creditors. However, KDLC's future viability remains in doubt. The Company is not in a position to exert influence over KDLC's operations, and KDLC is not engaging in new business. Therefore, cumulative translation adjustments included in accumulated other comprehensive loss in the consolidated balance sheets as an unrealized loss of ¥5,205 million ($43,950 thousand) have been charged to current period earnings.

Combined and condensed financial information with respect to the major affiliates (KDLC, Stockton Holdings Limited—30% owned, Bradesco Leasing S.A. Arrendamento Mercantil—25% owned and Banc One Mortgage Capital Markets, LLC.—45% owned) accounted for by the equity method is as follows. KDLC is excluded from the table for fiscal 1999 due to the conditions discussed above.

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Operations:				
Total revenues	**¥ 50,453**	¥107,983	¥ 133,199	**$ 426,015**
Income before income taxes	**13,235**	4,107	22,058	**111,754**
Net income	**12,177**	6,188	20,975	**102,820**
Financial position:				
Total assets	**393,589**	886,093	1,051,698	**3,323,389**
Total liabilities	**296,210**	769,999	935,829	**2,501,140**
Shareholders' equity	**97,379**	116,092	115,869	**822,249**

The Company had no significant transactions with these companies.

10. SHORT-TERM AND LONG-TERM DEBT

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

The composition of short-term debt and the weighted average interest rate on short-term debt at March 31, 1999 and 1998 are as follows:

March 31, 1999

	Millions of yen	Thousands of U.S. dollars	Weighted average rate
Short-term debt in Japan, mainly from banks	**¥ 889,412**	**$ 7,510,023**	**1.4%**
Short-term debt outside Japan, mainly from banks	**282,170**	**2,382,589**	**6.5%**
Commercial paper in Japan	**826,150**	**6,975,851**	**0.6%**
Commercial paper outside Japan	**187,251**	**1,581,111**	**5.6%**
	¥2,184,983	**$18,449,574**	**2.1%**

March 31, 1998

	Millions of yen	Weighted average rate
Short-term debt in Japan, mainly from banks	¥1,098,793	1.7%
Short-term debt outside Japan, mainly from banks	368,660	6.6%
Commercial paper in Japan	841,974	1.4%
Commercial paper outside Japan	267,056	6.2%
	¥2,576,483	2.8%

Long-term debt at March 31, 1999 and 1998 consists of the following:

March 31, 1999

	Due	Millions of yen	Thousands of U.S. dollars
Commercial banks:			
Fixed rate: 1.6% to 9.3%	2000–2005	**¥ 240,913**	**$ 2,034,223**
Floating rate: principally based on LIBOR plus 0.2% to 1.1%	2000–2009	**165,323**	**1,395,955**
Government-sponsored agencies in Japan:			
Fixed rate: 4.2% to 6.2%	2000–2007	**10,313**	**87,081**
Floating rate: principally based on LIBOR plus 0.0% to 0.1%	2000–2003	**48,607**	**410,428**
Insurance companies and others:			
Fixed rate: 1.1% to 9.0%	2000–2009	**375,908**	**3,174,094**
Floating rate: principally based on LIBOR plus 0.0% to 0.5%	2000–2008	**173,352**	**1,463,751**
Unsecured 1.4% to 8.5% bonds	2000–2013	**569,590**	**4,809,508**
Unsecured 0.1% to 1.9% bonds with warrants	2002–2003	**5,200**	**43,908**
Unsecured notes under medium-term note program:			
0.8% to 7.3%	2000–2009	**244,591**	**2,065,279**
Zero Coupon	2000–2006	**7,988**	**67,449**
Payables under securitized lease receivables,			
floating rate based on LIBOR plus 0.3% to 0.7%	2002	**194,243**	**1,640,150**
		¥2,036,028	**$17,191,826**

March 31, 1998

	Due	Millions of yen
Commercial banks:		
Fixed rate: 1.8% to 10.2%	1999–2005	¥ 341,906
Floating rate: principally based on LIBOR plus 0.1% to 0.8%	1999–2009	159,924
Government-sponsored agencies in Japan:		
Fixed rate: 3.8% to 6.2%	1999–2007	17,737
Floating rate: principally based on LIBOR plus 0.1% to 0.6%	1999–2003	43,036
Insurance companies and others:		
Fixed rate: 1.6% to 8.5%	1999–2009	423,372
Floating rate: principally based on LIBOR plus 0.1% to 0.5%	1999–2008	193,769
Unsecured 1.7% to 5.0% bonds	1999–2013	345,000
Unsecured 0.1% bonds with warrants	2002	3,000
Unsecured notes under medium-term note program:		
1.0% to 7.4%	1999–2009	199,289
Zero Coupon	1999–2006	9,017
Payables under securitized lease receivables,		
floating rate based on LIBOR plus 0.3%	2002	305,520
Unsecured debt under borrowed securities agreements, 6.1%	1999	3,000
		¥2,044,570

The repayment schedule for the next five years and thereafter for long-term debt at March 31, 1999 is as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2000	¥ 523,985	$ 4,424,428
2001	468,027	3,951,929
2002	384,540	3,246,981
2003	291,245	2,459,216
2004	96,321	813,316
Thereafter	271,910	2,295,956
Total	¥2,036,028	$17,191,826

Certain of the agreements relating to long-term debt provide that the Company is required to submit proposals as to the appropriations of earnings (including payment of dividends) if requested to do so by the lenders for their review and approval prior to presentation to the shareholders. To date, the Company has not received such requests from its lenders. In addition, the agreements related to debt payable to banks provide that the bank under certain circumstances may request additional security for these loans and has the right to offset cash deposited against any short-term or long-term debt that becomes due, and in case of default and certain other specified events, against all other debt payable to the bank. Whether such provisions can be enforced will depend upon the factual circumstances.

In addition to the minimum lease payments receivable related to the payables under securitized lease receivables described in Note 4, the short-term and long-term debt payable to financial institutions are secured by the following assets as of March 31, 1999:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 8,672	$ 73,225
Minimum lease payments, loans and future rentals	49,974	421,971
Investment in securities	5,646	47,674
Other operating assets and office facilities, net	4,736	39,990
	¥69,028	$582,860

In addition, under agreements with customers on brokerage business, customers' securities of ¥19 million ($160 thousand) at market value are pledged as collateral for the short-term debt as of March 31, 1999.

Loan agreements relating to short-term and long-term debt from commercial banks and certain insurance companies provide that minimum lease payments and installment loans are subject to pledges as collateral against these debts at any time if requested by the lenders. To date, the Company has not received any such requests from the lenders.

The following short-term and long-term debt is guaranteed by commercial banks and an insurance company as of March 31, 1999:

	Millions of yen	Thousands of U.S. dollars
Commercial paper	¥64,502	$544,642
Government-sponsored agencies in Japan	7,246	61,184

11. INCOME TAXES

Income before income taxes and the provision for income taxes in fiscal 1999, 1998 and 1997 are as follows:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Income before income taxes:				
Domestic	**¥15,728**	¥28,186	¥20,157	**$132,804**
Foreign	**11,587**	10,226	16,732	**97,839**
	¥27,315	¥38,412	¥36,889	**$230,643**
Provision for income taxes:				
Current—				
Domestic	**¥ 5,633**	¥ 4,964	¥ 6,968	**$ 47,564**
Foreign	**6,407**	8,053	6,002	**54,100**
	12,040	13,017	12,970	**101,664**
Deferred—				
Domestic	**(14,153)**	5,072	4,646	**(119,505)**
Foreign	**3,807**	(3,408)	229	**32,145**
	(10,346)	1,664	4,875	**(87,360)**
Provision for income taxes	**¥ 1,694**	¥14,681	¥17,845	**$ 14,304**

The normal income tax rate in Japan was approximately 48% in fiscal 1999 and was approximately 51% in fiscal 1998 and 1997. The effective income tax rate is different from the normal income tax rate primarily because of certain permanent non-deductible expenses and inclusion in income of equity in net income of affiliates.

Under the provisions of FASB Statement No. 109 ("Accounting for Income Taxes"), the effect of a change in tax laws or rates is included in income in the period the change is enacted and includes a cumulative recalculation of deferred tax balances based on the new tax laws or rates. The 1998 tax reform, enacted on March 31, 1998 (effective from April 1, 1998), decreased the normal income tax rate to approximately 48%. And the 1999 tax reform, enacted on March 31, 1999 (effective from April 1, 1999), decreased the normal income tax rate to approximately 42%.

These changes in the tax rates resulted in ¥14,582 million ($123,128 thousand) and ¥6,315 million of benefit in fiscal 1999 and 1998, respectively.

Reconciliations of the differences between tax provision computed at the normal rate and consolidated provisions for income taxes in fiscal 1999,1998 and 1997 are as follows:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Income before income taxes	**¥27,315**	¥38,412	¥36,889	**$230,643**
Tax provision computed at normal rate	**¥13,029**	¥19,744	¥18,961	**$110,015**
Increases (reductions) in taxes due to:				
Application of the equity method	**2,846**	(1,170)	(3,300)	**24,031**
Permanent non-deductible expenses	**858**	1,050	1,227	**7,245**
Effect of a change in tax rates	**(14,582)**	(6,315)	—	**(123,128)**
Amortization of goodwill	**(459)**	663	420	**(3,876)**
Other, net	**2**	709	537	**17**
Provision for income taxes	**¥ 1,694**	¥14,681	¥17,845	**$ 14,304**

Total income taxes recognized for the years ended March 31, 1999, 1998 and 1997 are as follows:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Provision for income taxes	**¥1,694**	¥14,681	¥17,845	**$14,304**
Income tax on other comprehensive income (loss):				
Net unrealized gains (losses) on investment in securities	**1,414**	(10,500)	(1,939)	**11,940**
Cumulative translation adjustments	**(528)**	20	1,606	**(4,459)**
Total income taxes	**¥2,580**	¥ 4,201	¥17,512	**$21,785**

The tax effects of temporary differences giving rise to the deferred tax assets and liabilities at March 31, 1999 and 1998 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Assets:			
Net operating loss carryforwards	**¥ 15,266**	¥ 16,761	**$ 128,903**
Allowance for doubtful receivables on direct financing leases and possible loan losses	**31,852**	38,305	**268,952**
Installment loans	**4,006**	948	**33,826**
Policy liabilities	**1,840**	1,432	**15,537**
Accrued expenses	**3,973**	2,953	**33,547**
Other	**2,703**	2,037	**22,824**
	¥ 59,640	¥ 62,436	**$ 503,589**
Liabilities:			
Investment in direct financing leases	**¥119,916**	¥127,350	**$1,012,547**
Investment in operating leases	**14,499**	17,696	**122,427**
Investment in securities	**5,551**	7,298	**46,871**
Deferred life insurance acquisition costs	**5,941**	5,719	**50,165**
Undistributed earnings	**13,111**	16,732	**110,707**
Other	**4,619**	1,172	**39,002**
	¥163,637	¥175,967	**$1,381,719**
Net deferred tax liability	**¥103,997**	¥113,531	**$ 878,130**

Certain subsidiaries have recognized deferred tax assets from net operating loss carryforwards totaling ¥38,361 million ($323,913 thousand) as of March 31, 1999, which expire as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2000	¥ 807	$ 6,814
2001	1,939	16,373
2002	2,280	19,252
2003	9,536	80,520
2004	7,948	67,111
Thereafter	15,851	133,843
Total	¥38,361	$323,913

Undistributed earnings of certain foreign subsidiaries and affiliates for which deferred income taxes were not provided amounted to ¥53,041 million ($447,868 thousand) as of March 31, 1999. Since the management decided that such undistributed earnings are permanently reinvested, no provision for income taxes has been provided.

Net deferred tax assets and liabilities at March 31, 1999 and 1998 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Other Assets	**¥ 2,500**	¥ —	**$ 21,110**
Income Taxes: Deferred	**106,497**	113,531	**899,240**
Net deferred tax liability	**¥103,997**	¥113,531	**$878,130**

12. PENSION PLANS

The Company and certain subsidiaries have trusted contributory and non-contributory funded pension plans covering substantially all of their employees other than directors and corporate auditors. Under the plans, employees are entitled to lump-sum payments at the time of termination of their employment or to pension payments. The amounts of such payments are determined on the basis of length of service and remuneration at the time of termination. The Company's funding policy is to contribute annually the amounts actuarially determined. Assets of the plans are invested primarily in interest-bearing securities and marketable equity securities.

As of April 1, 1997, the Company and certain subsidiaries made remeasurements of both plan assets and obligations. As a result of the remeasurements, the discount rate and the expected long-term rate of return were changed to reflect current market conditions. These changes resulted in an increase in the projected benefit obligation at April 1, 1997 by ¥3,894 million compared with the amount measured on March 31, 1997. Accordingly, net periodic pension cost for fiscal 1998 was calculated based on the new assumptions, and contributions by the Company and certain subsidiaries increased as appropriate.

Effective April 1, 1998, the Company adopted FASB Statement No. 132 ("Employers' Disclosures about Pension and Other Postretirement Benefits"), which revised disclosure about pension and other postretirement plans. The following disclosures reflect the requirement of the new rule.

The funded status of the defined benefit pension plans as of March 31, 1999 and 1998 is as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Change in benefit obligation:			
Benefit obligation at beginning of year	**¥28,070**	¥26,038	**$237,018**
Service cost	**2,140**	1,784	**18,070**
Interest cost	**1,297**	1,127	**10,952**
Plan participants' contributions	**445**	414	**3,757**
Plan amendments	**46**	—	**388**
Actuarial loss (gain)	**57**	(540)	**481**
Foreign currency exchange rate change	**(250)**	150	**(2,111)**
Benefits paid	**(1,000)**	(903)	**(8,444)**
Benefit obligation at end of year	**¥30,805**	¥28,070	**$260,111**
Change in plan assets:			
Fair value of plan assets at beginning of year	**¥26,122**	¥21,374	**$220,569**
Actual return on plan assets	**152**	1,298	**1,284**
Employer contribution	**5,313**	3,706	**44,862**
Plan participants' contributions	**445**	414	**3,758**
Benefits paid	**(876)**	(818)	**(7,397)**
Foreign currency exchange rate change	**(220)**	148	**(1,858)**
Fair value of plan assets at end of year	**¥30,936**	¥26,122	**$261,218**
The funded status of the plans:			
Funded status	**¥ 131**	¥ (1,948)	**$ 1,106**
Unrecognized prior service cost	**44**	—	**372**
Unrecognized net actuarial loss	**7,450**	6,333	**62,906**
Unrecognized net transition obligation	**561**	630	**4,737**
Net amount recognized	**¥ 8,186**	¥ 5,015	**$ 69,121**
Amount recognized in the consolidated balance sheets consists of:			
Prepaid benefit cost	**¥10,095**	¥ 7,359	**$ 85,240**
Accrued benefit liability	**(2,322)**	(2,782)	**(19,607)**
Intangible asset	**413**	438	**3,488**
Net amount recognized	**¥ 8,186**	¥ 5,015	**$ 69,121**

Net pension cost of the plans for fiscal 1999, 1998 and 1997 consists of the following:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Service cost	**¥2,140**	¥1,784	¥1,440	**$18,070**
Interest cost	**1,297**	1,127	846	**10,952**
Expected return on plan assets	**(1,369)**	(1,071)	(1,040)	**(11,560)**
Amortization of unrecognized transition obligation	**45**	24	(31)	**380**
Amortization of unrecognized net actuarial loss	**175**	244	77	**1,478**
Amortization of unrecognized prior service cost	**2**	—	—	**16**
Net periodic pension cost	**¥2,290**	¥2,108	¥1,292	**$19,336**

Significant assumptions used to determine these amounts for fiscal 1999, 1998 and 1997 are as follows:

	1999	1998	1997
Discount rate	**4.6%**	4.7%	5.5%
Rate of increase in compensation levels	**2.8%**	2.8%	3.1%
Expected long-term rate of return on plan assets	**4.8%**	4.9%	5.5%

In addition, directors and corporate auditors of the Company and certain subsidiaries, and executive officers of the Company, receive lump-sum payments upon termination of their services under unfunded termination plans. The payments to directors and corporate auditors are subject to shareholders' approval. The amount required based on length of services and remuneration to date under these plans is fully accrued.

Total provisions charged to income for all the plans including the defined benefit plans are ¥2,942 million ($24,842 thousand), ¥3,019 million and ¥2,431 million in fiscal 1999, 1998 and 1997, respectively.

13. STOCK-BASED COMPENSATION

Since fiscal 1998, the Company has introduced stock option plans for all directors, exective officers and key employees. Under the plans, the right is granted to purchase the treasury shares of the Company at a certain purchase price. A fiscal 1999 stock option plan provides that a purchase price will be an amount obtained by multiplying by 1.00 the average acquisition price of the treasury shares, provided that the exercise price shall not be less than the closing market price of the shares on the Tokyo Stock Exchange on the grant date. The options vest 100% on the grant date and are exercisable for 9.75 years from that date. The Company acquired 146,000 shares of its common stock for the plan during fiscal 1999. A fiscal 1998 stock option plan provides that a purchase price will be an amount obtained by multiplying by 1.03 an average of the closing market prices of the shares on the Tokyo Stock Exchange on all trading days for a month immediately preceding the month of the date of the grant, provided that the exercise price shall not be less than the average acquisition price of the treasury shares. The options vest 100% on the grant date and are exercisable for five years from that date. The Company acquired 168,000 shares of its common stock for the plan during fiscal 1998. The Board of Directors intends to obtain approval from the shareholders, at the next general meeting, to be held on June 29, 1999, for the acquisition by the Company of 145,000 shares of its common stock for a total consideration not exceeding ¥1,900 million ($16,043 thousand) for an additional grant of stock options during fiscal 2000.

FASB Statement No.123 (“Accounting for Stock-Based Compensation”) defines a fair value based method of accounting for a stock option. This statement gives entities a choice of recognizing related compensation expense by adopting the new fair value method or to continue to measure compensation using the intrinsic value approach under APB Opinion No. 25 (“Accounting for Stock Issued to Employees”), the former standard. The Company chose to use the measurement prescribed by APB Opinion No. 25 and recognized no compensation cost and compensation cost of ¥49 million in fiscal 1999 and 1998, respectively. Had compensation cost for the Company’s stock option plans been determined consistent with FASB Statement No. 123, the Company’s net income and earnings per share in fiscal 1999 and 1998 would have been as follows:

	1999	1998	**1999**
Net income (millions of yen and thousands of U.S. dollars)	**¥25,102**	¥23,385	**$211,956**
Basic and diluted earnings per share (yen and U.S. dollars)	**¥388.49**	¥361.05	**$3.28**

The following table summarizes information about stock option activity for fiscal 1999 and 1998:

	Number of shares	Weighted average exercise price		Weighted average remaining life	Exercise price	
		Yen	U.S. dollars		Low	High
Outstanding at March 31, 1997	—	—				
Granted	168,000	¥9,198				
Exercised	—	—				
Forfeited or expired	—	—				
Outstanding at March 31, 1998	168,000	9,198				
Granted	146,000	9,340	$78.87			
Exercised	—	—	—			
Forfeited or expired	—	—	—			
Outstanding at March 31, 1999	314,000	9,264	78.22	6.00 Years	¥9,198	¥9,340
[Exercisable at March 31, 1998]	168,000	9,198				
[Exercisable at March 31, 1999]	314,000	9,264	78.22			

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

	1999	1998
Grant-date fair value	**¥3,552 ($29.99)**	¥2,356
Expected life	**10 Years**	5 Years
Risk-free rate	**0.81%**	1.21%
Expected volatility	**29.74%**	24.56%
Expected dividend yield	**0.161%**	0.158%

The Company has also introduced warrant plans to corporate auditors and key employees (not including employees who were option holders under the stock option plan) of the Company and directors of its certain subsidiaries since fiscal 1998. Under the plans, the Company granted warrants to purchase 262,994 shares and 259,258 shares by repurchasing warrants attached to bonds with warrants issued by the Company during fiscal 1999 and1998, respectively. Grant-date fair value was ¥612 ($5.17) and ¥620, and exercise price was ¥8,262 ($69.76) and ¥9,527 in fiscal 1999 and 1998, respectively. Exercise price of the warrants granted in fiscal 1998 has been adjusted since November 14, 1998, by issuance of bonds with warrants in fiscal 1999 by the Company.

Subject to the final approval by the Board of Directors of the Company, the Company intends to introduce a fiscal 2000 warrant plan. Under the plan, warrants to purchase approximately 260,900 shares will be granted to corporate auditors and key employees (not including employees who are option holders under the stock option plan) of the Company and directors of its certain subsidiaries by repurchasing warrants attached to bonds with warrants to be issued by the Company during fiscal 2000. The exercise price of the warrants will be determined based on a formula linked to a stock price when the terms for issuing the bonds with warrants are determined.

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

Effective April 1, 1998, the Company adopted FASB Statement No. 130 ("Reporting Comprehensive Income"), which established standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements.

Comprehensive income (loss) and its components have been reported, net of tax, in the consolidated statements of shareholders' equity.

Changes in each component of accumulated other comprehensive loss in fiscal 1999, 1998 and 1997 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Net unrealized gains on investment in securities	Cumulative translation adjustments	Accumulated other comprehensive income (loss)	Net unrealized gains on investment in securities	Cumulative translation adjustments	Accumulated other comprehensive income (loss)
Balance at April 1, 1996	¥13,855	¥(29,942)	¥(16,087)			
Net unrealized gains (losses) on investment in securities, net of tax of ¥1,939 million	(1,213)		(1,213)			
Foreign currency translation adjustment, net of tax of ¥(1,606) million		15,475	15,475			
Current period change	¥ (1,213)	¥ 15,475	¥ 14,262			
Balance at March 31, 1997	¥12,642	¥(14,467)	¥ (1,825)			
Net unrealized gains (losses) on investment in securities, net of tax of ¥10,500 million	(9,931)		(9,931)			
Foreign currency translation adjustment, net of tax of ¥(20) million		(6,323)	(6,323)			
Current period change	¥ (9,931)	¥ (6,323)	¥(16,254)			
Balance at March 31, 1998	¥ 2,711	¥(20,790)	¥(18,079)	$22,891	$(175,547)	$(152,656)
Net unrealized gains (losses) on investment in securities, net of tax of ¥1,317 million ($11,120 thousand)	(1,096)		(1,096)	(9,254)		(9,254)
Reclassification adjustment for losses included in net income, net of tax of ¥(2,731) million ($(23,060) thousand)	2,538		2,538	21,430		21,430
Foreign currency translation adjustment, net of tax of ¥892 million ($7,532 thousand)		(16,118)	(16,118)		(136,098)	(136,098)
Reclassification adjustment for losses included in net income, net of tax of ¥(364) million ($(3,074) thousand)		5,205	5,205		43,950	43,950
Current period change	¥ 1,442	¥(10,913)	¥ (9,471)	$12,176	$ (92,148)	$ (79,972)
Balance at March 31, 1999	**¥ 4,153**	**¥(31,703)**	**¥(27,550)**	**$35,067**	**$(267,695)**	**$(232,628)**

15. SHAREHOLDERS' EQUITY

The Japanese Commercial Code (the "Code") provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriation of retained earnings be appropriated to a legal reserve until such reserve equals 25% of the issued capital. The Code also provides that both additional paid-in capital and the legal reserve are not available for cash dividends but may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

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

The Board of Directors intends to recommend to the shareholders, at the next general meeting, to be held on June 29, 1999, the declaration of a cash dividend totaling ¥968 million ($8,174 thousand), which will be paid in that month to the shareholders of record as of March 31, 1999, covering fiscal 1999, and the related appropriation of retained earnings to the legal reserve of ¥110 million ($928 thousand).

The amount of retained earnings legally available for distribution (and for the requisite appropriation to the legal reserve) is that recorded in the Company's books and amounted to ¥74,149 million ($626,100 thousand) as of March 31, 1999. However, there is a restriction on the payment of dividends relating to the treasury stock acquired for the stock option plan, amounting to ¥2,793 million ($23,584 thousand) as of March 31, 1999.

16. BROKERAGE COMMISSIONS AND GAINS ON INVESTMENT SECURITIES

Brokerage commissions and gains on investment securities in fiscal 1999, 1998 and 1997 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Brokerage commissions	**¥1,165**	¥1,400	¥1,448	**$ 9,837**
Gains on investment securities, net	**6,216**	6,671	2,783	**52,487**
	¥7,381	¥8,071	¥4,231	**$62,324**

Trading activities—Gains on investment securities, net, include net trading revenue on trading securities amounting to ¥679 million ($5,733 thousand), ¥574 million and ¥223 million, and derivative trading instruments amounting to ¥561 million ($4,737 thousand), ¥303 million and ¥964 million for fiscal 1999, 1998 and 1997, respectively.

17. LIFE INSURANCE OPERATIONS

Life insurance premiums and related investment income in fiscal 1999, 1998 and 1997 consists of the following:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Life insurance premiums	**¥186,629**	¥118,856	¥77,122	**$1,575,859**
Life insurance related investment income	**9,630**	7,175	5,174	**81,314**
	¥196,259	¥126,031	¥82,296	**$1,657,173**

Benefits and expenses of the life insurance operations, included in life insurance costs in the consolidated statements of income, are associated with earned premiums so as to result in recognition of profits over the life of contracts. This association is accomplished by means of the provision for future policy benefits and the deferral and subsequent amortization of policy acquisition costs (principally commissions and certain other expenses relating to policy issuance and underwriting). These policy acquisition costs are amortized in proportion to premium revenue recognized. Amortization charged to income for fiscal 1999, 1998 and 1997 amounted to ¥8,428 million ($71,164 thousand), ¥7,020 million and ¥5,795 million, respectively.

18. OTHER OPERATIONS

Other operating revenues and expenses include revenues and costs from sales of residential apartments developed by the Company, fee income and costs from leveraged lease arrangements, commission income and costs from sales of commodities funds and revenues and expenses from other operations.

19. PER SHARE DATA

In Japan, dividends which are payable to shareholders of record at the end of a fiscal year are subsequently approved by shareholders, and, accordingly, the declaration of these dividends is not reflected in the financial statements at such fiscal year-end. However, dividends per share shown in the consolidated statements of income have been presented on an accrual basis and include, in each fiscal year, dividends to be approved by shareholders after such fiscal year.

In fiscal 1998, the Company adopted FASB Statement No. 128 ("Earnings per Share"), which requires companies to present basic earnings per share (EPS) and diluted EPS. The application of this statement did not have an effect on basic and diluted EPS in fiscal 1999, 1998 and 1997 as diluted EPS is equal to basic EPS in each period. As of March 31, 1999, treasury stock held and warrants issued in connection with the introduction of stock option plans and warrant plans that could potentially dilute basic EPS were not included in the composition of diluted EPS because of its antidilutive effect for the period.

20. DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company and certain subsidiaries operate internationally, giving rise to significant exposures to market risks from changes in interest rates and foreign exchange rates. Derivative financial instruments are utilized by the Company and certain subsidiaries to reduce those risks, as explained in this note.

(a) Interest rate risk management

The Company and certain subsidiaries have entered into various types of interest rate contracts in managing their interest rate risk as of March 31, 1999 and 1998, as indicated in the following table:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
	Notional amount	Notional amount	Notional amount
Interest rate swap agreements	**¥1,132,831**	¥1,056,070	**$9,565,406**
Options, caps, floors and collars held	**76,232**	82,461	**643,688**

Under interest rate swap agreements, the Company and certain subsidiaries agree with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. Certain agreements are combinations of interest rate and foreign currency swap transactions. The Company and such subsidiaries pay the fixed rate and receive the floating rate under the majority of their swaps. Because the size of swap positions needed to reduce the impact of market fluctuations on net interest expense varies over time, the Company and certain subsidiaries have also entered into swaps in which they receive the fixed rate and pay the floating rate when necessary to reduce their net swap positions.

Interest rate options grant the purchaser, for a premium payment, the right to either purchase from or sell to the writer a specified financial instrument under agreed terms. Interest rate caps, floors and collars require the writer to pay the purchaser at specified future dates the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to a notional amount. The option, cap, floor or collar writer receives a premium for bearing the risk of unfavorable interest rate changes. The premiums paid for interest rate options, cap, floor and collar agreements purchased are included in other assets in the accompanying consolidated balance sheets and are amortized to interest expense over the terms of the agreements. Amounts receivable under cap, floor and collar agreements and gains realized on option contracts are recognized as a reduction of interest expense.

(b) Loan commitments

Loan commitments are agreements to make loans as long as the agreed-upon terms are met. The outstanding amounts of those loan commitments as of March 31, 1999 and 1998 are set out in the following table:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
	Outstanding contract amount	Outstanding contract amount	Outstanding contract amount
Loan commitments	**¥18,726**	¥14,227	**$158,119**

(c) Foreign exchange risk management

The Company and certain subsidiaries have entered into foreign exchange forward contracts and foreign currency swap agreements in managing their foreign exchange risk as of March 31, 1999 and 1998, as indicated in the following table:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
	Notional amount	Notional amount	Notional amount
Foreign exchange forward contracts	**¥ 30,954**	¥ 67,560	**$ 261,370**
Foreign currency swap agreements	**288,796**	196,756	**2,438,538**

Foreign exchange forward contracts and foreign currency swap agreements are agreements between two parties to purchase and sell a foreign currency for a price specified at the contract date, with delivery and settlement in the future. The Company and such subsidiaries use such contracts to hedge the risk of change in foreign currency exchange rates associated with certain assets and obligations denominated in foreign currencies.

21. SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

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

At March 31, 1999 and 1998, no concentration with a single obligor exceeded 1% of consolidated total assets. With respect to the Company and its subsidiaries' credit exposures on a geographic basis, approximately ¥3,420 billion ($28,878 million), or 75%, at March 31, 1999 and approximately ¥3,520 billion, or 73%, at March 31, 1998 of the credit risks arising from all financial instruments are attributable to customers located in Japan. The largest concentration of credit risks as to foreign countries is exposure attributable to the United States of America.

The Company and its subsidiaries make direct financing lease and operating lease contracts mostly with the lessees in commercial industries for their office, industry, commercial service, transport and other equipment. At March 31, 1999 and 1998, the Company and its subsidiaries had concentrations in certain equipment types included in investment in direct financing leases and operating leases which exceeded 10% of the consolidated total assets. The percentages of consolidated total assets invested in transportation equipment and information-related, office and measuring equipment were 11.1% and 10.3% as of March 31, 1999, and 11.4% and 12.2% as of March 31, 1998, respectively. Most of the lease payments are made at fixed rates.

22. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The disclosures include financial instruments and derivatives financial instruments, other than investment in direct financing leases, investment in subsidiaries and affiliates, pension obligations and insurance contracts. The following table does not include trading instruments because it is immaterial.

March 31, 1999

	Millions of yen		Thousands of U.S. dollars	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Non-trading instruments				
Assets:				
Cash and cash equivalents	**¥ 254,540**	**¥ 254,540**	**$ 2,149,286**	**$ 2,149,286**
Time deposits	**8,861**	**8,861**	**74,821**	**74,821**
Installment loans	**1,761,887**	**1,772,448**	**14,877,033**	**14,966,208**
Allowance for doubtful receivables on possible loan losses	**(108,739)**	**(108,739)**	**(918,171)**	**(918,171)**
Investment in securities:				
Practicable to estimate fair value	**528,261**	**528,234**	**4,460,533**	**4,460,305**
Not practicable to estimate fair value	**47,531**	**47,531**	**401,343**	**401,343**
Liabilities:				
Short-term debt	**2,184,983**	**2,184,983**	**18,449,574**	**18,449,574**
Long-term debt	**2,036,028**	**2,066,592**	**17,191,826**	**17,449,903**
Foreign exchange forward contracts:				
Assets	**383**	**383**	**3,234**	**3,234**
Liabilities	**589**	**589**	**4,973**	**4,973**
Foreign currency swap agreements:				
Assets	**—**	**16,497**	**—**	**139,297**
Liabilities	**—**	**7,905**	**—**	**66,748**
Interest rate swap agreements:				
Assets	**—**	**14,294**	**—**	**120,696**
Liabilities	**—**	**27,510**	**—**	**232,289**
Options and other derivatives:				
Assets	**109**	**(6)**	**920**	**(51)**

March 31, 1998

	Millions of yen	
	Carrying amount	Estimated fair value
Non-trading instruments		
Assets:		
Cash and cash equivalents	¥ 268,215	¥ 268,215
Time deposits	10,535	10,535
Installment loans	1,794,825	1,816,854
Allowance for doubtful receivables on possible loan losses	(135,231)	(135,231)
Investment in securities:		
Practicable to estimate fair value	461,024	460,995
Not practicable to estimate fair value	39,379	39,379
Liabilities:		
Short-term debt	2,576,483	2,576,483
Long-term debt	2,044,570	2,063,314
Foreign exchange forward contracts:		
Assets	353	353
Liabilities	2,167	2,167
Foreign currency swap agreements:		
Assets	—	483
Liabilities	—	23,429
Interest rate swap agreements:		
Assets	—	13,278
Liabilities	—	30,690
Options and other derivatives:		
Assets	241	30

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

Estimation of fair value

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

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

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

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

For other securities, for which there were no quoted market prices, reasonable estimates of fair values could not be made without incurring excessive costs. However, the management of the Company believes that the carrying amounts of other securities approximated the estimated fair values of these securities.

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

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

23. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments, guarantees and contingencies—As of March 31, 1999, the Company and its subsidiaries had commitments for the purchase of equipment to be leased, having a cost of approximately ¥14,186 million ($119,784 thousand).

The minimum future rentals on non-cancelable operating leases are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2000	¥ 416	$ 3,513
2001	418	3,530
2002	382	3,226
2003	339	2,862
2004	304	2,567
Thereafter	1,117	9,432
Total	¥2,976	$25,130

The Company and its subsidiaries lease office space under operating lease agreements, which are primarily cancelable, and made rental payments totaling ¥6,996 million ($59,073 thousand), ¥6,446 million and ¥5,783 million in fiscal 1999, 1998 and 1997, respectively.

As of March 31, 1999, the Company and its subsidiaries were contingently liable as guarantor for borrowings of ¥29,048 million ($245,276 thousand) by customers, principally on consumer loans, and by employees.

Litigation—The Company and its subsidiaries are also involved in legal proceedings and claims in the ordinary course of their business. In the opinion of management, none of such proceedings and claims has a material impact on the Company's financial position or results of operations.

24. SEGMENT INFORMATION

Effective April 1, 1998, the Company adopted FASB Statement No. 131 ("Disclosures about Segments of an Enterprise and Related Information"). Prior period amounts have been restated in accordance with the requirement of the standard. The following table presents segment financial information on the basis that is regularly used by management for evaluating the segment performance and deciding how to allocate resources to them. The reportable segments are identified based on the nature of services for domestic operations and on geographic area for foreign operations. As to the segment of corporate finance in domestic operations, the Company aggregates some operating segments that are determined by region and type of operating assets for management purposes because they are similar in the nature of the services, the type of customers and the economic environment.

Corporate finance operations are primarily corporate direct financing leases and lending operations other than real estate related lending. Equipment operating lease operations are comprised of operating leases over measuring equipment, information-related equipment and automobiles. Real estate related finance operations include corporate real estate financing activities as well as personal housing loan lending operations. Real estate operations primarily comprise residential subdivision developments as well as the rental and management of office buildings, hotels and training facilities. Life insurance operations include direct and agency life insurance sales and related activities. The three foreign operating segments, the Americas, Asia and Oceania, and Europe, include direct financing lease operations, investment in securities, collateralized real property lending and aircraft and ship financial operations. Other operations, which are not deemed by management to be sufficiently material to disclose as separate items and do not fall into the above segment categories, are reported under domestic other operations. They primarily include securities transactions, venture capital operations and trust and banking operations.

Financial information of the segments for fiscal 1999, 1998 and 1997 is as follows:

Year ended March 31, 1999

	Millions of yen									
	Domestic operations						Foreign operations			
	Corporate finance	Equipment operating leases	Real estate related finance	Real estate	Life insurance	Other	The Americas	Asia and Oceania	Europe	Total
Revenues	¥ 122,629	¥ 51,000	¥ 17,731	¥ 39,088	¥195,484	¥ 22,684	¥ 68,821	¥ 51,220	¥ 23,811	¥ 592,468
Interest revenue	17,926	7	16,601	519	—	16,828	26,048	18,750	9,674	106,353
Interest expense	41,697	1,538	10,891	4,220	—	4,435	34,049	27,707	13,174	137,711
Depreciation and amortization	26,427	30,299	2,259	3,994	359	338	5,507	12,038	7,693	88,914
Other significant non-cash items:										
Provision for doubtful receivables and possible loan losses	24,420	35	15,857	—	—	3,324	5,861	1,775	1,217	52,489
Increase in policy liabilities	—	—	—	—	135,086	—	—	—	—	135,086
Equity in net income (loss) of affiliates and gains on sales of affiliates	(16)	4	—	—	—	(99)	7,564	(10,979)	11	(3,515)
Segment profit (loss)	35,240	6,923	(11,013)	(2,236)	3,813	(4,266)	20,590	(11,729)	264	37,586
Segment assets	2,046,516	109,772	573,767	273,504	334,836	248,872	634,101	440,872	178,559	4,840,799
Long-lived assets	33,338	63,433	3,744	245,963	—	5,877	32,773	82,204	79,247	546,579
Expenditures for long-lived assets	10,524	34,399	2,175	27,121	—	1,333	20,312	37,109	136	133,109
Investment in affiliates	141	16	—	—	—	9,313	38,956	8,997	169	57,592

Year ended March 31, 1999

	Thousands of U.S. dollars									
	Domestic operations						Foreign operations			
	Corporate finance	Equipment operating leases	Real estate related finance	Real estate	Life insurance	Other	The Americas	Asia and Oceania	Europe	Total
Revenues	**$ 1,035,456**	**$430,634**	**$ 149,717**	**$ 330,052**	**$1,650,629**	**$ 191,539**	**$ 581,111**	**$ 432,492**	**$ 201,055**	**$ 5,002,685**
Interest revenue	**151,364**	**59**	**140,176**	**4,382**	**—**	**142,092**	**219,944**	**158,321**	**81,686**	**898,024**
Interest expense	**352,081**	**12,987**	**91,961**	**35,633**	**—**	**37,448**	**287,503**	**233,953**	**111,239**	**1,162,805**
Depreciation and amortization	**223,144**	**255,839**	**19,075**	**33,725**	**3,031**	**2,854**	**46,500**	**101,647**	**64,958**	**750,773**
Other significant non-cash items:										
Provision for doubtful receivables and possible loan losses	**206,198**	**296**	**133,893**	**—**	**—**	**28,067**	**49,489**	**14,988**	**10,276**	**443,207**
Increase in policy liabilities	**—**	**—**	**—**	**—**	**1,140,640**	**—**	**—**	**—**	**—**	**1,140,640**
Equity in net income (loss) of affiliates and gains on sales of affiliates	**(135)**	**34**	**—**	**—**	**—**	**(836)**	**63,869**	**(92,705)**	**93**	**(29,680)**
Segment profit (loss)	**297,560**	**58,456**	**(92,992)**	**(18,880)**	**32,196**	**(36,021)**	**173,858**	**(99,037)**	**2,229**	**317,369**
Segment assets	**17,280,385**	**926,894**	**4,844,778**	**2,309,415**	**2,827,290**	**2,101,427**	**5,354,226**	**3,722,638**	**1,507,717**	**40,874,770**
Long-lived assets	**281,500**	**535,616**	**31,614**	**2,076,864**	**—**	**49,624**	**276,729**	**694,115**	**669,145**	**4,615,207**
Expenditures for long-lived assets	**88,863**	**290,458**	**18,365**	**229,004**	**—**	**11,256**	**171,511**	**313,341**	**1,149**	**1,123,947**
Investment in affiliates	**1,191**	**135**	**—**	**—**	**—**	**78,637**	**328,937**	**75,969**	**1,427**	**486,296**

Year ended March 31, 1998

	Millions of yen									
	Domestic operations						Foreign operations			
	Corporate finance	Equipment operating leases	Real estate related finance	Real estate	Life insurance	Other	The Americas	Asia and Oceania	Europe	Total
Revenues	¥ 120,939	¥ 50,189	¥ 19,102	¥ 19,203	¥125,767	¥ 20,631	¥ 71,485	¥ 55,750	¥ 21,966	¥ 505,032
Interest revenue	14,107	25	18,428	460	—	13,864	24,727	16,397	9,949	97,957
Interest expense	40,343	1,328	11,171	4,296	—	4,274	36,202	27,157	15,138	139,909
Depreciation and amortization	27,333	28,197	2,363	3,717	223	2,466	6,065	12,481	7,400	90,245
Other significant non-cash items:										
Provision for doubtful receivables and possible loan losses	12,013	81	29,014	5,910	—	2,824	6,077	2,184	83	58,186
Increase in policy liabilities	—	—	—	—	72,432	—	—	—	—	72,432
Equity in net income (loss) of affiliates and gains on sales of affiliates	(20)	(10)	—	—	—	3,121	8,454	(3,644)	—	7,901
Segment profit (loss)	44,097	8,407	(23,071)	(8,392)	5,762	1,891	21,263	(8,441)	(2,123)	39,393
Segment assets	2,233,448	103,435	649,511	297,880	196,378	243,607	668,742	459,042	251,759	5,103,802
Long-lived assets	36,775	65,554	3,396	276,124	—	4,546	35,882	77,897	102,013	602,187
Expenditures for long-lived assets	14,329	38,695	2,627	12,982	—	526	4,708	30,187	3,684	107,738
Investment in affiliates	134	13	—	—	—	8,561	41,326	21,606	181	71,821

Year ended March 31, 1997

	Millions of yen									
	Domestic operations						Foreign operations			
	Corporate finance	Equipment operating leases	Real estate related finance	Real estate	Life insurance	Other	The Americas	Asia and Oceania	Europe	Total
Revenues	¥ 106,887	¥46,080	¥ 22,620	¥ 17,525	¥ 82,296	¥ 20,498	¥ 55,258	¥ 53,179	¥ 22,326	¥ 426,669
Interest revenue	12,635	16	22,013	417	—	13,208	19,420	13,322	10,341	91,372
Interest expense	37,496	1,339	14,119	3,172	—	4,369	29,955	22,951	15,735	129,136
Depreciation and amortization	22,870	25,995	2,091	3,994	208	2,097	6,377	11,624	7,045	82,301
Other significant non-cash items:										
Provision for doubtful receivables and possible loan losses	16,663	23	23,087	8,021	—	2,721	4,498	1,660	1,075	57,748
Increase in policy liabilities	—	—	—	—	40,550	—	—	—	—	40,550
Equity in net income (loss) of affiliates and gains on sales of affiliates	(10)	—	—	—	—	29	8,735	3,955	92	12,801
Segment profit (loss)	32,276	7,998	(16,120)	(10,885)	5,036	81	12,760	12,646	(4,257)	39,535
Segment assets	2,013,346	93,956	667,509	282,198	143,982	191,446	654,256	510,474	284,819	4,841,986
Long-lived assets	29,044	60,622	2,379	269,801	—	4,211	64,914	74,567	108,473	614,011
Expenditures for long-lived assets	9,647	34,311	—	16,257	—	841	16,652	27,560	2,731	107,999
Investment in affiliates	139	10	—	—	—	10,676	38,306	27,685	1,743	78,559

Accounting policies of the segments are almost the same as those described in Note 1 ("Significant Accounting and Reporting Policies") except for the treatment of income tax expenses. Since the Company evaluates performance for the segments based on profit or loss before income taxes, tax expenses are not included in segment profit or loss. Equity in net income of affiliates and minority interest income, which are recognized as net of tax on a consolidated basis, are adjusted to the profit or loss before income tax. Gains and losses that management does not consider for evaluating the performance of the segments, such as write-downs of certain securities and certain foreign exchange gains or losses, are excluded from the segment profit or loss.

Assets attributed to each segment are consolidated operating assets (investment in direct finance leases, installment loans, investment in operating leases, investment in securities and other operating assets), advances and investment in affiliates (not including loans). This has resulted in depreciation of office facilities and goodwill amortization expenses being included in each segment's profit or loss while the carrying amounts of corresponding assets are not allocated to each segment's assets. However, the effect stemmed from the allocation is immaterial.

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

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Revenues:				
Total revenues for segments	**¥ 592,468**	¥ 505,032	¥426,669	**$ 5,002,685**
Revenue related to corporate assets	**1,473**	2,111	1,625	**12,438**
Total consolidated revenues	**¥ 593,941**	¥ 507,143	¥428,294	**$ 5,015,123**
Segment profit:				
Total profit for segments	**¥ 37,586**	¥ 39,393	¥ 39,535	**$ 317,369**
Unallocated interest expenses, general and administrative expenses	**(4,189)**	(4,386)	(4,441)	**(35,371)**
Adjustment of income tax expenses to equity in net income and minority income	**(375)**	(1,741)	(2,493)	**(3,166)**
Unallocated write-downs of securities	**(8,383)**	—	—	**(70,784)**
Unallocated other gain or loss	**2,676**	5,146	4,288	**22,595**
Total consolidated income before income taxes	**¥ 27,315**	¥ 38,412	¥ 36,889	**$ 230,643**
Segment assets:				
Total assets for segments	**¥4,840,799**	¥5,103,802		**$40,874,770**
Advances	**(62,079)**	(101,282)		**(524,183)**
Investment in affiliates (not including loans)	**(57,592)**	(71,821)		**(486,296)**
Corporate assets	**54,308**	51,501		**458,566**
Total consolidated operating assets	**¥4,775,436**	¥4,982,200		**$40,322,857**

FASB Statement No. 131 requires disclosure of information about geographic areas as an enterprise-wide information. Since the segment is identified based on the nature of services for domestic operations and on geographic area for foreign operations, the information required as an enterprise-wide one is incorporated into the table. Japan and the United States of America are the countries whose revenues from external customers are material. Almost all the revenues of the Americas segment are derived from the United States of America. The basis for attributing revenues from external customers to individual countries is principally the location of the foreign subsidiaries and foreign affiliates.

FASB Statement No. 131 requires disclosure of revenues from external customers for each product and service as an enterprise-wide information. The consolidated statements of income in which the revenues are categorized based on the nature of business, includes the required information. No single customer accounted for 10% or more of the total revenues for fiscal 1999, 1998 and 1997.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors of ORIX Corporation:

We have audited the accompanying consolidated balance sheets of ORIX Corporation (a Japanese corporation) and its subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1999, expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ORIX Corporation and its subsidiaries as of March 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with accounting principles generally accepted in the United States of America (see Note 1).

Also, in our opinion, the translated amounts in the accompanying consolidated financial statements translated into U.S. dollars have been computed on the basis set forth in Note 1 (u).

Arthur Andersen

Tokyo, Japan
May 20, 1999

JAPANESE REGION

■ Domestic Operations

Leasing and Installment Loans

	Principal Business	
ORIX Corporation	Providing direct financing leases and operating leases for OA equipment, computers, industrial equipment, plants, aircraft, and other equipment; providing installment loans.	**Tokyo Sales Headquarters** 3-22-8, Shiba, Minato-ku, Tokyo 105-8683, Japan Tel: 03-5419-5000 Fax: 03-5419-5903 *Corporate Executive Vice President:* Katsuo Kawanaka *Corporate Executive Officer:* Masahiro Matono **Kinki (Osaka) Sales Headquarters** Nihon Kasai-Osaka Building, 1-11-4, Edobori, Nishi-ku, Osaka 550-0002, Japan Tel: 06-6449-5001 Fax: 06-6441-7160 *Corporate Executive Vice President:* Teruo Isogai *Corporate Executive Officer:* Kenji Kajiwara **District Sales Headquarters** 3-22-8, Shiba, Minato-ku, Tokyo 105-8683, Japan Tel: 03-5419-5169 Fax: 03-5419-5929 *Corporate Senior Vice President:* Hiroshi Furukawa

	Principal Business	Established (equity interest acquired)	ORIX Group's Ownership (%)	
ORIX Auto Leasing Corporation	Auto lessor in Japan active mainly in fleet leasing but with growing business in auto leases for individuals.	1973	100	3-22-8, Shiba, Minato-ku, Tokyo 105-8683 Tel: 03-5419-5600 Fax: 03-5419-5903 *Chairman:* Etsuo Hashimoto *President:* Akira Fukushima
ORIX Alpha Corporation	Leasing and financing furnishings and equipment for retailers, hotels, restaurants, and other users; providing mediatory and consulting services.	1972	100	Karuko-zaka MN Building, 2-1, Ageba-cho, Shinjuku-ku, Tokyo 162-8570 Tel: 03-5228-5300 Fax: 03-5228-5310 *President:* Kunitoshi Masuda
ORIX Aircraft Corporation	Aircraft leasing.	1986	100	3-22-8, Shiba, Minato-ku, Tokyo 105-8683 Tel: 03-5419-5163 Fax: 03-5419-5922 *President:* Takeshi Sato

Real Estate Related Business

ORIX Corporation	Principal Business	
Real Estate Business Headquarters	Brokering real estate and other real estate related services, such as dormitory leasing.	**Real Estate Business Headquarters** World Trade Center Building, 2-4-1, Hamamatsu-cho, Minato-ku, Tokyo 105-6135, Japan Tel: 03-3435-3200 Fax: 03-3435-3300 *Corporate Executive Officer:* Hiroaki Nishina
Real Estate Finance Headquarters	Housing loans and project finance.	**Real Estate Finance Headquarters** World Trade Center Building, 2-4-1, Hamamatsu-cho, Minato-ku, Tokyo 105-6135, Japan Tel: 03-3435-3000 Fax: 03-3435-3001 *Corporate Executive Officer:* Masaaki Tashiro

	Principal Business	Established (equity interest acquired)	ORIX Group's Ownership (%)	
ORIX Estate Corporation	Managing real estate and leisure facilities.	(1986)	99	1-2-30, Benten, Minato-ku, Osaka 552-0007 Tel: 06-6571-2481 Fax: 06-6572-5741 *President:* Yutaka Shiraishi
ORIX Real Estate Corporation	Real estate development and management.	1999	100	World Trade Center Building, 2-4-1, Hamamatsu-cho, Minato-ku, Tokyo 105-6135 Tel: 03-3435-3200 Fax: 03-3435-3300 *President:* Hiroaki Nishina
ORIX Asset Management and Loan Services Corporation	Commerical mortgage servicing.	1999	100	World Trade Center Building, 2-4-1, Hamamatsu-cho, Minato-ku, Tokyo 105-6135 Tel: 03-3435-3240 Fax: 03-3435-3314 *President:* Masaaki Tashiro
Rentals				
ORIX Rentec Corporation	Rental supplier of high-precision measuring equipment in Japan.	1976	100	5-7-21, Kita-Shinagawa, Shinagawa-ku, Tokyo 141-8681 Tel: 03-3473-7561 Fax: 03-3473-7549 *Chairman:* Sachio Hata *President:* Shunji Sasaki
ORIX Rent-A-Car Corporation	Rent-a-car business.	1985	85	Shin-Osaki Kangyo Building, 1-6-4, Osaki, Shinagawa-ku, Tokyo 141-8606 Tel: 03-3779-2201 Fax: 03-3779-3910 *Chairman:* Toshio Saruwatari *President:* Kazuo Yokoyama
Consumer Finance				
ORIX Credit Corporation	Consumer credit company engaged in business centered on shopping credit and consumer finance.	1979	100	HI Gotanda Building, 2-11-17, Nishi-Gotanda, Shinagawa-ku, Tokyo 141-8510 Tel: 03-5487-7111 Fax: 03-3490-1582 *President:* Hiroshi Maruyama *Deputy President:* Takafumi Kanda

	Principal Business	Established (equity interest acquired)	ORIX Group's Ownership (%)	
ORIX Club Corporation	Consumer loans.	1990	100	1-3-8, Nishi-Gotanda, Shinagawa-ku, Tokyo 141-8552 Tel: 03-5487-7500 Fax: 03-3490-4025 *President:* Hiroshi Maruyama
ORIX Club Corporation	Consumer loans.	1994	100	2-4-27, Doujima, Kita-ku, Osaka 530-0003 Tel: 06-4397-1222 Fax: 06-4397-1177 *President:* Kentaro Takahashi
Computer Software				
ORIX Computer Systems Corporation	Software engineering house.	1984	100	Osaki CN Building, 5-10-10, Osaki, Shinagawa-ku, Tokyo 141-8618 Tel: 03-5434-7800 Fax: 03-5434-1345 *President:* Nobuyuki Kobayashi *Deputy President:* Yuzo Sotani
Securities Brokerage				
ORIX Securities Corporation	Securities house.	(1986)	100	2-26-9, Hachobori, Chuo-ku, Tokyo 104-0032 Tel: 03-3297-5411 Fax: 03-3555-3010 Telex: 2522680 *President:* Koichiro Muta
Venture Capital				
ORIX Capital Corporation	Management of venture capital investment funds.	1983	95	TOC Osaki Building, 1-6-1, Osaki, Shinagawa-ku, Tokyo 141-0032 Tel: 03-5434-1361 Fax: 03-5434-1360 *President:* Tsutomu Matsuzaki
Marine Transport				
ORIX Maritime Corporation	Shipping and ship management services.	1977	100	3-22-8, Shiba, Minato-ku, Tokyo 105-8683 Tel: 03-5419-5871 Fax: 03-5419-5959 Telex: 2427492 ORIX MT J *President:* Takahide Sato *Managing Director:* Masao Dohi
Life Insurance				
ORIX Life Insurance Corporation	Life insurance.	1991	100	Shinjuku Chuo Building, 5-17-5, Shinjuku, Shinjuku-ku, Tokyo 160-0022 Tel: 03-5272-2700 Fax: 03-5272-2720 *Chairman:* Shogo Kajinishi *President:* Shinobu Shiraishi
Insurance				
ORIX Insurance Services Corporation	Agency services for casualty and life insurance.	1976	100	World Trade Center Building, 2-4-1, Hamamatsu-cho, Minato-ku, Tokyo 105-6135 Tel: 03-3435-6618 Fax: 03-3435-6686 *President:* Moriaki Usami
Interior Products				
ORIX Interior Corporation*	Manufacturer of carpet and other interior products.	1998	100	5-9-1, Harayamadai, Sakai, Osaka 590-0132 Tel: 0722-97-5551 Fax: 0722-97-5558 *President:* Yutaka Shiraishi

Entertainment	Principal Business	Established (equity interest acquired)	ORIX Group's Ownership (%)	
ORIX Baseball Club	Professional baseball team.	(1988)	100	Sumitomo-Kaijo Kobe Building, 1-1-18, Sakaemachi-dori, Chuo-ku, Kobe 650-0023 Tel: 078-333-0062 Fax: 078-333-0048 *President:* Yoshinori Tsukiji
Futures and Options				
ORIX Investment Corporation	Proprietary trading in global futures markets.	1999	100	World Trade Center Building, 2-4-1, Hamamatsu-cho, Minato-ku, Tokyo 105-6135 Tel: 03-3435-3011 Fax: 03-3435-3324 *President:* Takashi Koizumi
ORIX COMMODITIES Corporation	Futures and options trading.	1990	100	3-22-8, Shiba, Minato-ku, Tokyo 105-8683 Tel: 03-5419-5850 Fax: 03-5419-5950 *President:* Taisuke Ito
Hotel Management and Training Facilities Management				
BlueWave Inn Corporation	Hotel management.	1991	100	2-33-7, Asakusa, Taitou-ku, Tokyo 111-0032 Tel: 03-5828-4321 Fax: 03-5828-6421 *President:* Hiroyuki Kobatake
Cross Wave Corporation	Training facilities management.	1993	100	2-9-3, Honmachi, Funabashi, Chiba 273-0005 Tel: 0474-36-0111 Fax: 0474-36-0112 *President:* Hiroyuki Kobatake
Transportation				
SKYMARK AIRLINES CO., LTD.	Airline travel services.	1996	23	Sumitomo-Seimei Hamamatsu-cho Building, 1-22-5, Hamamatsu-cho, Minato-ku, Tokyo 105-8554 Tel: 03-5402-6767 Fax: 03-5402-6770 *Managing Director:* Yoshiyuki Yoshizumi
Environmental Services				
ORIX Eco Services Corporation	Environmental services.	1998	100	Kagurazaka 1-chome Building, 1-15, Kagurazaka, Shinjuku-ku, Tokyo 162-0825 Tel: 03-5228-5330 Fax: 03-5228-5861 *President:* Sugao Suito
Trust Bank				
ORIX Trust and Banking Corporation	Trust and banking services.	(1998)	100	7-2, Kabuto-cho, Nihonbashi, Chuo-ku, Tokyo 103-0026 Tel: 03-3660-6551 Fax: 03-3660-6099 *President:* Toru Yamagishi
Advertisement Agency				
ORIX Create Corporation	Coordination of Group PR activities.	1998	100	3-22-8, Shiba, Minato-ku, Tokyo 105-8683 Tel: 03-5419-5900 Fax: 03-5419-5928 *President:* Kenichi Miyauchi

*ORIX Corporation and ORIX Interior Corporation merged on April 1, 1999. ORIX Interior's financing operations were taken over by ORIX, while ORIX Interior's remaining operations (manufacturing, warehousing, etc.) were transferred to OI Corporation, a vehicle established specifically to undertake these operations. On April 1, 1999, OI Corporation was renamed ORIX Interior Corporation.

ORIX Corporation	Principal Business	
International Headquarters	Supervising ORIX's entire international operations and providing an extensive range of financial services adapted to the characteristics of each market.	**International Headquarters** 3-22-8, Shiba, Minato-ku, Tokyo 105-8683, Japan Tel: 03-5419-5158 Fax: 03-5419-5919 Telex: J24642 *Corporate Senior Vice President:* Takeshi Sato *Corporate Executive Officer:* Yoshio Ono
International Department	Keeping up the worldwide Group network and being responsible for centralized planning and administrative support for international operations.	*General Manager:* Takahisa Sato
Corporate Development Department	Planning and development of new business and investments, including mergers and acquisitions overseas.	*Deputy General Manager:* Motokazu Kakizaki
Marine Business Department	Providing a full range of financial services to the shipping industry, including arrangement of senior debt finance, mezzanine debt finance, and equity investment; brokering sales and purchases of ships and acting as an intermediary for the building of new ships.	*General Manager:* Takahide Sato
International Business Department	Arranging diversified financing (corporate, asset-based, sovereign, and structured); investing in prime international capital and money market products.	*General Manager:* Hiromi Kobayashi
International Real Estate Department	Financing, equity placement, investment, brokerage, consulting, and development in connection with real estate.	*Corporate Senior Vice President:* Takeshi Sato
Aerospace Department I	Operating leases and finance leases for aircraft.	*General Manager:* Tatsuro Suzuki
Aerospace Department II	Arranging leveraged leases for aircraft and other equipment; development and marketing of asset-based structured investment schemes.	*General Manager:* Tatsuro Suzuki

ASIA & OCEANIA REGION

	Country	Principal Business	Established (equity interest acquired)	ORIX Group's Ownership (%)	
ORIX Investment and Management Private Limited	Singapore	Venture capital investment.	1981	100	250 North Bridge Road, #19-01 Raffles City Tower, Singapore 179101 Tel: 7928000 Fax: 3397123 *Managing Director:* Nagaaki Esaki
ORIX Leasing Singapore Limited	Singapore	Equipment leasing, hire-purchase, and other financial services.	1972	50	331 North Bridge Road, #19-01/06 Odeon Towers, Singapore 188720 Tel: 3393622 Fax: 3393966 *Managing Director:* Kwek Chye Teck
ORIX CAR RENTALS PTE. LTD.	Singapore	Rent-a-car business and auto leasing.	1981	45	30 Bukit Batok East Avenue 6, Singapore 659761 Tel: 4691455 Fax: 4691842 *Director:* Nagaaki Esaki
ORIX COMMODITIES SINGAPORE PTE. LIMITED	Singapore	Trading futures and options for proprietary and client accounts.	1990	100	250 North Bridge Road, #19-01 Raffles City Tower, Singapore 179101 Tel: 3391976 Fax: 3391981 *Director:* Nagaaki Esaki
ORIX Rentec (Singapore) Pte. Limited	Singapore	Equipment rental.	1995	100	140 Paya Lebar Road, #05-07/08/09 A-Z Building, Singapore 409015 Tel: 7454515 Fax: 7456595 *Managing Director:* Tetsuji Komiyama
ORIX Asia Limited	China (Hong Kong)	Leasing and investment banking in Hong Kong and throughout Southeast Asia.	1971	100	30th Floor, United Centre, 95 Queensway, Hong Kong, S.A.R., China Tel: 28629268 Fax: 25279688 *Managing Director:* Yuki Oshima
ORIX HOTELS INTERNATIONAL PRIVATE LIMITED (Registered in Singapore)	China (Hong Kong)	Hotel management and development business.	1991	100	c/o ORIX Asia Limited Hotel Management & Development Dept., 30th Floor, United Centre, 95 Queensway, Hong Kong, S.A.R., China Tel: 28629268 Fax: 25279688
ORIX Auto Leasing Asia Limited	China (Hong Kong)	Auto leasing.	1995	89	30th Floor, United Centre, 95 Queensway, Hong Kong, S.A.R., China Tel: 28629268 Fax: 28657930 *Managing Director:* Kotaro Takamori
China Orient Leasing Co., Ltd.	China	Equipment leasing.	1981	50	Rooms 409-410, Dongyi Commercial Office Building, No. 23 Xibahe Xili, Beisanhuan Dong Road, Chaoyang District, Beijing 100028, China Tel: 10-6427-9988 Fax: 10-6427-5753 *President:* Takumi Kato
ORIX Maritime Corporation, Seoul Represen-tative Office	South Korea	Liaison functions for ORIX Maritime Corporation.	1992	—	11th Floor, Suhrin Building, #88 Suhrin-Dong, Chongro-ku, Seoul, Korea Tel: 2-723-6511 Fax: 2-723-6514 *Chief Representative:* Shinji Yamana
Korea Development Leasing Corporation*	South Korea	Equipment leasing and other financing services.	1975	26	11th-20th Floors, Suhrin Building, #88 Suhrin-Dong, Chongro-ku, Seoul, Korea Tel: 2-3700-0114 Fax: 2-3700-0019 *President and CEO:* Shin In-Sik
GLOBAL RENTAL COMPANY LIMITED	South Korea	Equipment rental.	1995	52	4th Floor, Dongshin Bldg., 141-28, Samsung-Dong, Kangnam-ku, Seoul, Korea Tel: 2-557-5656 Fax: 2-562-0958 *Vice President and CEO:* Tae Young, Chung
Korea Rental Corporation	South Korea	Rental of office equipment, measuring instruments, etc.	(1996)	36	7th-9th Floors, Buok-Bldg., 648-18, Yeoksam-Dong, Kangnan-ku, Seoul, Korea Tel: 2-554-9696 Fax: 2-556-4343 *President:* Choong-Ho, Lee
ORIX Taiwan Corporation	Taiwan	Hire-purchase services and equipment leasing services.	1990	95	10th Floor, 217, Nan King E. Road, Sec. 3, Taipei, Taiwan, R.O.C. Tel: 2-2715-5458 Fax: 2-2713-2448 *President:* Kazunori Okimoto

*Listed company

	Country	Principal Business	Established (equity interest acquired)	ORIX Group's Ownership (%)	
ORIX Auto Leasing Taiwan Corporation	Taiwan	Auto leasing.	1998	100	10th Floor, 217, Nan King E. Road, Sec. 3, Taipei, Taiwan, R.O.C. Tel: 2-2719-5166 Fax: 2-2545-0870 *Chairman:* Kazunori Okimoto
Consolidated ORIX Leasing and Finance Corporation	Philippines	Lease financing and mortgage loans.	1977	40	19th Floor, Solidbank Building, 777 Paseo de Roxas, 1226 Makati City, The Philippines Tel: 2-8920481 Fax: 2-8173529 *President and CEO:* Eduardo R. Alvarez *Director:* Yasuhiro Nakai
Thai ORIX Leasing Co., Ltd.	Thailand	Equipment leasing, hire-purchase, and factoring services.	1978	49	313 C.P. Tower, 24th Floor, Silom Road, Bangrak, Bangkok 10500, Thailand Tel: 2-2310589 Fax: 2-2310661 *President:* Suvit Arunanondchai *Executive Director:* Junichi Hayashi
UNITED ORIX LEASING BERHAD	Malaysia	Equipment leasing and other financing services.	1973	80	12th Floor, Menara Promet, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia Tel: 3-2418355 Fax: 3-2487344 *Deputy Chairman:* Masafumi Aoyama
ORIX CAR RENTALS SDN. BHD.	Malaysia	Rent-a-car business.	1989	54	16-1, Jalan 6/91, Taman Shamelin Perkasa, 56100 Kuala Lumpur, Malaysia Tel: 3-9847799 Fax: 3-9861799 *Director:* Masafumi Aoyama
ORIX Rentec (Malaysia) Sdn. Bhd.	Malaysia	Equipment rental.	1996	94	1st Floor, Wisma Domain, 18A (Lot 318) Jalan 51A/223, 46100 Petaling Jaya, Selangor Darul Ehsan, Malaysia Tel: 3-758-1388 Fax: 3-758-6388 *Director:* Masafumi Aoyama
PT. ORIX Indonesia Finance	Indonesia	Equipment leasing and other financing services.	1975	83	Wisma Kyoei Prince, 24th Floor, Jl. Jend. Sudirman Kav. 3-4, Jakarta 10220, Indonesia Tel: 21-5723041 Fax: 21-5723071 *President Director:* Yoshinori Matsuoka
INFRA-STRUCTURE LEASING & FINANCIAL SERVICES LIMITED	India	Infrastructure commercial-ization, equipment leasing, and other financing services.	(1993)	20	4th Floor, Mahindra Towers, Dr. G.M. Bhosale Marg, Worli, Bombay 400-018, India Tel: 22-4935127 Fax: 22-4930080 *Vice Chairman & Managing Director:* Ravi Parthasarathy *Senior Vice President:* Genichi Fujinaga
ORIX AUTO FINANCE (INDIA) LIMITED	India	Auto leasing and fleet management.	1995	60	Plot No. 94, Marol Co-operative Industrial Estate, Andheri-Kurla Road, Andheri (East), Mumbai 400-086 Tel: 22-8528677 Fax: 22-8528549 *Chief Executive Officer:* Richard Miranda
Lanka ORIX Leasing Company Limited*	Sri Lanka	Equipment leasing services.	1980	30	No. 100/1, Sri Jayawardenapura Mawatha, Rajagirya, Sri Lanka Tel: 1-865604 Fax: 1-865602 *Managing Director:* E.C.S.R. Muttupulle
ORIX Australia Corporation Limited	Australia	Equipment leasing, vehicle operating leases, and other financing services.	1986	100	No.1 Eden Park Drive, Waterloo Road, North Ryde, NSW 2113, Australia Tel: 2-9856-6000 Fax: 2-9856-6500 *Deputy Chairman:* Yoshiaki Komai *Managing Director:* John Patrick Sweeney
Ranger Truck Rental and Leasing Pty Limited	Australia	Truck rental and vehicle operating leases.	(1998)	100	42 Molan Street, Ringwood, VIC 3134, Australia Tel: 3-9870-6100 Fax: 3-9870-8842 *Chairman:* John Patrick Sweeney
AUSTRAL MERCANTILE COLLECTIONS PTY LIMITED	Australia	Debt servicing.	1998	50	Level 7, 222 Pitt Street, Sydney, NSW 2113, Australia Tel: 2-9283-1400 Fax: 2-9283-1425 *Chairman:* John Patrick Sweeney
ORIX New Zealand Limited	New Zealand	Vehicle operating leases and rent-a-car business.	(1988)	100	32 Manukau Road, Level 3, Newmarket, Auckland, New Zealand Tel: 9-520-9700 Fax: 9-520-9790 *Managing Director:* Peter Byers

*Listed company

MIDDLE EASTERN & NORTH AFRICAN REGION

Regional General Manager, Middle East: **Humayun Murad**

	Country	Principal Business	Established (equity interest acquired)	ORIX Group's Ownership (%)	
ORIX Leasing Pakistan Limited*	Pakistan	Equipment leasing services.	1986	57	Overseas Investors Chamber of Commerce Building, Talpur Road, Karachi-74000, Pakistan Tel: 92-21-2426021 Fax: 92-21-2425897 *Chief Executive:* Humayun Murad
ORIX Investment Bank Pakistan Limited*	Pakistan	Investment bank.	1995	29	3rd Floor, P.I.C. Towers, 32-A, Lalazar Drive, M.T. Khan Road, Karachi-74000, Pakistan Tel: 21-5610272 Fax: 21-5610510 *Managing Director and CEO:* Naim Farooqui
Oman ORIX Leasing Company SAOG*	Oman	Equipment leasing.	1994	12	3rd Floor, Al Harthy Complex, Al Qurum, Muscat, Sultanate of Oman Tel: 565612 Fax: 565610 *General Manager:* Shaheen Amin
ORIX Leasing Egypt SAE	Egypt	Equipment leasing.	1997	36	4th Floor, Cairo Center, 2 Abd El-Kader Hamza St., Garden City 11461, Cairo, Egypt Tel: 20-2-5942757 Fax: 20-2-5942760 *Managing Director:* Saeed Reza

*Listed company

AMERICAS REGION

Corporate Executive Officer and Regional Chief Executive: **Yoshio Ono**

	Country	Principal Business	Established (equity interest acquired)	ORIX Group's Ownership (%)	
ORIX USA CORPORATION **New York Office**	U.S.A.	Equipment leasing, asset-based lending, real estate leasing, and general corporate financing.	1981	100	1177 Avenue of the Americas, 10th Floor, New York, NY 10036, U.S.A. Tel: 214-237-2300 Fax: 214-237-2034 *Chairman:* D.E. Mundell *President and CEO:* Yoshio Ono *Deputy President:* Kiyoshi Fushitani *Advisor:* Edward Guay Wintonbury Risk Management *Advisor:* John H. Moss JM Advisors, Inc.
Los Angeles Office					550 South Hope Street, Suite 1600, Los Angeles, CA 90071, U.S.A. Tel: 213-955-6500 Fax: 213-955-6530 *Senior Vice President:* Hiroyuki Sakai
San Francisco Office					One Bush Street, Suite 250, San Francisco, CA 94104, U.S.A. Tel: 415-433-0300 Fax: 415-433-7343 *Branch Manager:* William Hoge

	Country	Principal Business	Established (equity interest acquired)	ORIX Group's Ownership (%)	
ORIX Real Estate Equities, Inc.	U.S.A.	Commercial real estate development and investment.	(1987)	100	100 North Riverside Plaza, Suite 1400, Chicago, IL 60606, U.S.A. Tel: 312-669-6400 Fax: 312-669-6464 *Vice Chairman:* Kensuke Ishibashi *President and CEO:* James H. Purinton
ORIX Commercial Alliance Corporation	U.S.A.	Installment financing.	(1989)	100	300 Lighting Way, Secaucus, NJ 7096-1525, U.S.A. Tel: 201-601-9000 Fax: 201-601-9100 *President and CEO:* Philip D. Cooper
Banc One Mortgage Capital Markets, LLC.	U.S.A.	Commercial mortgage servicing, issuance of MBS, and real estate investment.	1997	45	1717 Main Street, #1400, Dallas, TX 75201, U.S.A. Tel: 214-237-2300 Fax: 214-237-2034 *CEO and Co-Chairman:* James R. Thompson *Director:* Nobuko Katayama
Stockton Holdings Limited	Bermuda	Trading in global futures markets for proprietary and client accounts.	(1989)	30	Stockton House, 55 Par-la-Ville Road, P.O. Box HM 3218, Hamilton HM NX, Bermuda Tel: 441-299-7400 Fax: 441-299-7488 *President and CEO, Chairman:* Robert G. Easton
Bradesco Leasing S.A. Arrendamento Mercantil	Brazil	Equipment leasing services.	1973	25	Cidade de Deus, Vila Yara, Osasco, São Paulo, Brazil Cep 06029-900 Tel: 11-70823101 Fax: 11-70845533 *Director:* Paulo Mitio Uekita

EUROPEAN REGION

	Country	Principal Business	Established (equity interest acquired)	ORIX Group's Ownership (%)	
ORIX Europe Limited	U.K.	Corporate and asset-based finance and investment.	1982	100	33 Lombard Street, London EC3V 9BQ, U.K. Tel: 171-623-0100 Fax: 171-623-1039 *Director:* Yoichi Mikami
ORIX Corporate Finance Limited	U.K.	Investment banking focusing on capital market and structured finance.	1989	100	33 Lombard Street, London EC3V 9BQ, U.K. Tel: 171-283-0505 Fax: 171-283-5289 *Director:* Yoichi Mikami
ORIX IRELAND LIMITED	Ireland	Investment in and trade of securities and loans; general corporate finance and asset-based finance.	1988	100	2nd Floor, IFSC House, International Financial Services Centre, Custom House Docks, Dublin 1, Ireland Tel: 1-6700622 Fax: 1-6700644 *Managing Director:* Akira Kashi
ORIX AVIATION SYSTEMS LIMITED	Ireland	Operating/finance leases for aircraft and other related services.	1991	100	2nd Floor, IFSC House, International Financial Services Centre, Custom House Docks, Dublin 1, Ireland Tel: 1-6700633 Fax: 1-6700644 *Managing Director:* Hideo Ichida
ORIX Polska S.A.	Poland	Equipment leasing services.	1995	85	Ul. Stawki 2, Intraco, VI p., 00-193, Warsaw, Poland Tel: 48-22-635-5162 Fax: 48-22-635-5343 *President:* Georges Bitner *Vice President:* Minoru Ohsawa

(As of June 29, 1999)

DIRECTORS AND AUDITORS

Yoshihiko Miyauchi
Representative Director
President and Chief Executive Officer

Yoshiaki Ishida
Representative Director
Deputy President

Koichi Maki
Corporate Executive Vice President
Office of Corporate Planning
Accounting Department

Shunsuke Takeda
Corporate Executive Vice President
Treasury Department

Katsuo Kawanaka
Corporate Executive Vice President
Tokyo Sales Headquarters

Teruo Isogai
Corporate Executive Vice President
Kinki (Osaka) Sales Headquarters

Hiroshi Furukawa
Corporate Senior Vice President
District Sales Headquarters

Yasuhiko Fujiki
Corporate Senior Vice President
Office of Assistant to the President
PFS Department

Takeshi Sato
Corporate Senior Vice President
International Headquarters

Tatsuya Tamura
Representative Director and
Chairman, A.T. Kearney K.K.

Akira Miyahara
Vice Chairman of the Board,
Fuji Xerox Co., Ltd.

ADVISOR TO THE BOARD

Yoshinori Yokoyama
Director, McKinsey & Company, Inc.

CORPORATE AUDITORS

Takeo Shiraki

Yuji Yamazaki

Naoaki Fujiyama

Yasuo Hama

CORPORATE EXECUTIVE OFFICERS

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Yoshihiko Miyauchi

DEPUTY PRESIDENT

Yoshiaki Ishida

CORPORATE EXECUTIVE VICE PRESIDENTS

Koichi Maki
Office of Corporate Planning
Accounting Department

Shunsuke Takeda
Treasury Department

Katsuo Kawanaka
Tokyo Sales Headquarters

Teruo Isogai
Kinki (Osaka) Sales Headquarters

CORPORATE SENIOR VICE PRESIDENTS

Hiroshi Furukawa
District Sales Headquarters

Yasuhiko Fujiki
Office of Assistant to the President
PFS Department

Takeshi Sato
International Headquarters

CORPORATE EXECUTIVE OFFICERS

Hiroaki Nishina
Real Estate Business Headquarters
President, ORIX Real Estate Corporation

Kenji Kajiwara
Kinki (Osaka) Sales Headquarters

Masahiro Matono
Tokyo Sales Headquarters

Hiroshi Nakajima
General Affairs Department

Yoshio Ono
Regional Chief Executive, Americas Region

Hiroyuki Harada
Credit Department

Akira Fukushima
President, ORIX Auto Leasing Corporation

Masaru Hattori
Office of Corporate Planning

Nobuyuki Kobayashi
Office of Corporate Reengineering
President, ORIX Computer Systems Corporation

Shunji Sasaki
President, ORIX Rentec Corporation

Shinobu Shiraishi
President, ORIX Life Insurance Corporation

Masaaki Tashiro
Real Estate Finance Headquarters
President, ORIX Asset Management and Loan Services Corporation

Hiroshi Nakamura
Compliance Affairs
Legal Affairs Department

Tamio Umaki
District Sales Headquarters

COUNSELOR AND SPECIAL ADVISOR

Shogo Kajinishi

ADVISOR

D.E. Mundell
Chairman, ORIX USA CORPORATION

(As of June 29, 1999)

ORIX Corporation

3-22-8, Shiba, Minato-ku,
Tokyo 105-8683, Japan
Tel: 81-3-5419-5000
Fax: 81-3-5419-5903
Telex: J24642

Established: April 17, 1964

Shareholders' Equity: ¥327,843 million

Number of Employees: 9,037

Shareholder Information

Total Number of Shares Authorized:
259,000,000 shares

Total Number of Shares Outstanding:
64,870,299 shares

Number of Shareholders: 5,930

Transfer Agent for Common Shares:
The Toyo Trust and Banking Company, Ltd.
1-4-3, Marunouchi, Chiyoda-ku,
Tokyo 100-0005, Japan

Depositary Bank for ADRs:
Citibank, N.A.
111 Wall Street, New York,
New York 10043, U.S.A.

Stock Exchange Listings

Common Shares and Convertible Bonds:
Tokyo Stock Exchange
Osaka Securities Exchange
Nagoya Stock Exchange
Securities Code: 8591

New York Stock Exchange
Securities Code: IX

(As of March 31, 1999)

To U.S. Holders:

PFIC

It is expected, and the following discussion assumes, that the Company will be a "passive foreign investment company" (a "PFIC") as defined in Section 1297(a) of the Internal Revenue Code in the year of the Offering and in future years by reason of the composition of its assets and the nature of its income.

A U.S. Holder who holds Shares will generally be subject to special rules (the "PFIC Rules") with respect to (i) any "excess distributions" on the Shares (generally, any distributions received by the U.S. Holder on the Shares in a taxable year that are greater than 125% of the average annual distributions received by the U.S. Holder in the three preceding taxable years, or, if shorter, the U.S. Holder's holding period for the Shares) and (ii) any gain realized on the sale or other disposition (including a pledge) of the Shares. Under these rules, (i) the excess distribution or gain would be allocated ratably over the U.S. Holder's holding period for the Shares, (ii) the amount allocated to the current taxable year would be taxed as ordinary income, and (iii) the amount allocated to each of the prior taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for such year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such prior year.

Under the recently enacted Taxpayer Relief Act of 1997, a U.S. Holder, in lieu of being subject to the special tax and interest charges described above, may make an election to include gain, as ordinary income, on the stock of a PFIC under a mark-to-market method. Under such an election, the U.S. Holder generally includes in income each year an amount equal to the excess, if any, of the fair market value of the PFIC stock as of the close of the taxable year over the U.S. Holder's adjusted basis in such stock. The U.S. Holder is allowed a deduction for the excess, if any, of the adjusted basis of the PFIC stock over its fair market value as of the close of the taxable year to the extent of any unreversed mark-to-market gains previously included in income with respect to the stock. Prospective investors should consult their tax advisors about the desirability of making such a mark-to-market election.

A U.S. Holder would also avoid the application of such special tax and interest charges if it made an election to treat the PFIC as a "qualified electing fund" under Section 1295 of the Code, provided that the corporation complies with certain reporting and other requirements. The Company, however, does not intend to comply with the requirements necessary to permit a holder to make an election to have the Company treated as a "qualified electing fund."

A U.S. Holder who beneficially owns Shares on a PFIC during any year must make an annual return on IRS Form 8621 that describes the distributions received with respect to such Shares and any gain realized on the sale or other disposition of such Shares.

For further information, please write to:

Corporate Communications,
Office of Assistant to the President,
ORIX Corporation
3-22-8, Shiba, Minato-ku,
Tokyo 105-8683, Japan
Tel: 81-3-5419-5102
Fax: 81-3-5419-5901
E-mail: koho@orix.co.jp
Homepage: www.orix.co.jp

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ORIX Corporation

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