



Annual Report 1998

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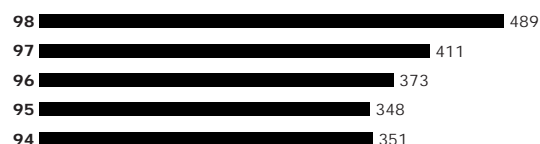
FINANCIAL HIGHLIGHTS

ORIX Corporation and Subsidiaries Years Ended March 31, 1998, 1997 and 1996

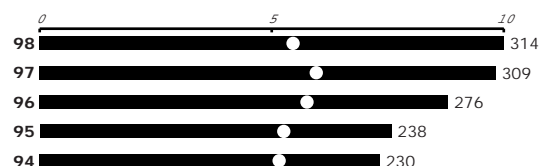
	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Total Revenues	¥ 489,015	¥ 411,343	¥ 372,567	\$ 3,668,805
Income before Income Taxes	38,412	36,889	35,027	288,184
Net Income.....	23,731	19,044	18,003	178,040
Per Share Data (in yen and dollars):				
Net income.....	¥ 366.40	¥ 293.57	¥ 277.53	\$ 2.75
Cash dividends	15.00	15.00	15.00	0.11
Book value	4,850.24	4,756.99	4,258.52	36.39
Shareholders' Equity	¥ 313,821	¥ 308,584	¥ 276,251	\$ 2,354,423
Total Assets.....	5,574,309	5,089,975	4,751,756	41,820,909

Notes: (a) 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.
 (b) The dollar amounts above and elsewhere in this report represent translations of Japanese yen at an exchange rate of ¥133.29 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.
 (c) Total revenues have been changed due to a reclassification of the consolidated statements of income.

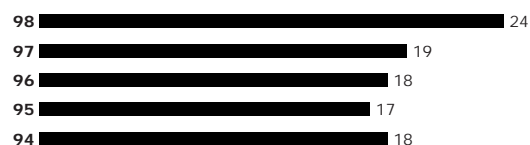
Total Revenues (Billion ¥)



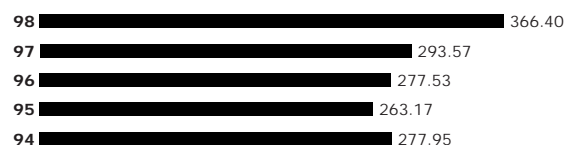
Shareholders' Equity & Ratio of Shareholders' Equity to Total Assets (Billion ¥, %)



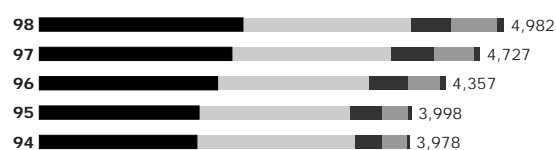
Net Income (Billion ¥)



Net Income per Share (¥)

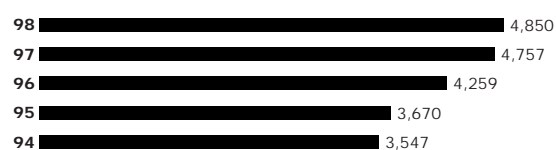


Operating Assets (Billion ¥)



Direct financing leases
 Installment loans
 Operating leases
 Investment in securities
 Other operating assets

Book Value per Share (¥)



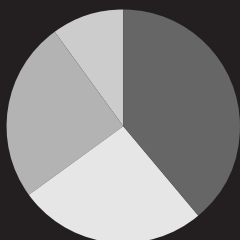
ORIX— Japan's Leading Diversified Financial Services Institution

ORIX Corporation was established in April 1964 to introduce leasing services in Japan and promote their broader utilization. The Company has flexibly responded to changes in economic conditions and customer requirements while steadily expanding its operations to encompass a comprehensive range of financial services. Focusing primarily on advanced and international financial services, ORIX has striven to sustain its corporate development over the long term by consistently keeping a step ahead of market requirements.

ORIX has maintained a fundamental corporate commitment to contributing to society by clearly grasping contemporary needs, developing specialized capabilities, and helping create new value.

Composition of Operating Assets

As of March 31, 1998



- **Financing Leases**
¥2,186,022 million (44%)
(\$16,400 million)
- **Operating Leases**
¥435,066 million (9%)
(\$3,264 million)
- **Installment Loans**
¥1,794,825 million (36%)
(\$13,466 million)
- **Investment in Securities**
¥500,449 million (10%)
(\$3,755 million)
- **Other Operations**
¥65,838 million (1%)
(\$494 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 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

A Message from the President

I am confident that our current strategies will enable ORIX to steadily improve its performance and maximize return on shareholders' equity over the long term.

Yoshihiko Miyauchi
President and Chief Executive Officer



I am pleased to present this report on ORIX Corporation's consolidated financial results and business activities for fiscal 1998, ended March 31, 1998, as well as the Company's outlook for the coming years.

Summary of Consolidated Performance

While the U.S. economy has maintained strong growth since 1991, the Japanese economy has continued to be lethargic, with no recovery seen in capital investment or personal consumption and persistent market anxiety over asset deflation. Moreover, considerable

concerns remain regarding economic conditions in East Asia following the recent currency crisis in the region.

Against this backdrop, ORIX continued to expand its marketing operations, specializing in fields where it boasts superior expertise and working assiduously to augment both its high-quality assets and fee income.

As a consequence, the Company's consolidated net income per share reached an all-time high of ¥366.40 (\$2.75) during the year under review, up 24.8% from the previous year, and book value per share at fiscal year-end was

¥4,850.24 (\$36.39), up 2.0%. Total revenues grew 18.9%, to ¥489 billion (\$3.7 billion), and income before income taxes advanced ¥1.5 billion (\$11.3 million), or 4.1%, to ¥38.4 billion (\$288 million). Net income totaled ¥23.7 billion (\$178 million), up 24.6%. Operating assets reached record high levels for the second consecutive fiscal year, amounting to ¥4.98 trillion (\$37.4 billion) at March 31, 1998.

Overview of Operations

Economic turmoil in East Asia due to the currency crisis sharply reduced ORIX's revenues in that region. However, this was compensated for by a considerable rise in North American revenues that reflected the strength of the U.S. economy. Together with positive trends maintained in principal domestic operations, this generated a record high level of net income as well as allowing ample additions to reserves made in accordance with ORIX's conservative policies.

The operating environment in Japan was extremely severe due to several factors, including persistently depressed domestic market conditions and the bankruptcies of several major financial institutions. Amid this environment, ORIX worked to enhance its profitability by continuing to bolster and expand its marketing network as well as by strengthening its customer base and seeking to heighten its level of specialization in leasing, installment loan, life insurance, and other operations.

Despite the depressed level of private capital expenditure in Japan, ORIX augmented its portfolio of solid lease assets while giving due attention to profitability and the dispersal of credit risks by being selective in arranging new leases and energetically promoting growth in office automation (OA) equipment leases and

other small-ticket leases. These efforts, coupled with steady growth achieved in automobile leasing and U.S. leasing operations and the purchase of domestic lease receivables yielding solid returns, enabled the Company to greatly increase the balance of its finance lease assets. Further growth in operating lease activities involving measuring equipment, computers, and related equipment also contributed to consolidated profitability.

In installment loan operations, ORIX maintained strict credit evaluation standards and a cautious approach to marketing activities while making substantial increases to its allowance for doubtful receivables and loan losses against nonperforming assets that arose as a result of the collapse of the Japanese real estate bubble.

With respect to life insurance operations, ORIX initiated the direct marketing to individuals of "ORIX Direct" life insurance products and strove to diversify its offerings in line with customer needs. As a result of this and growth in ORIX's existing operations, the outstanding balance of contracts grew considerably.

In each of these businesses, ORIX has consistently striven to offer superior products, accurately respond to changing customer requirements, and achieve a high degree of profitability in order to maximize the contribution to consolidated income.

In its funding activities, ORIX has continued its active issuance of corporate bonds, asset-backed securities (ABSs) backed by leasing assets, medium-term notes (MTNs), and commercial paper (CP). While maintaining an optimal balance of direct and indirect funding, the Company has procured stable and ample funding.

After the end of the fiscal year under review, in April 1998 ORIX completed the acquisition

of Yamaichi Trust & Bank, Ltd., thereby equipping the ORIX Group with settlement and trust banking capabilities.

Business Outlook

Deregulation in Japan is accelerating significantly with the onset of the country's financial reform program. This program emphasizes the principles of freedom, fairness, and globalization. ORIX anticipates increasingly keen competition in the freer markets that will ensue from the elimination of current regulatory impediments. To successfully compete, ORIX believes that it must proceed with business expansion based on an accurate grasp of the latest trends throughout the world, a further bolstering of its financial position, and an upgrading of operating capabilities to a truly international level.

Aiming to maintain strong profitability and further improve its performance amid uncertain economic conditions, ORIX will be working flexibly to make the best use of its existing strengths and special competencies. ORIX will focus on business fields in which these strengths and capabilities may be employed to the greatest advantage, introduce new products and services, and otherwise endeavor to sustain a highly dynamic and enterprising approach to its operations.

With an eye to maximizing shareholder convenience for foreign shareholders, ORIX is preparing to list on the New York Stock Exchange.

Corporate Evolution in the 21st Century

As the 21st century approaches, we are on the brink of a major historical transition.

ORIX believes that it can make crucial contributions to society during this remarkable

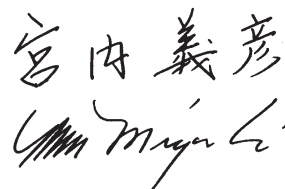
period of transition and beyond by continuing to focus on creating and providing innovative financial products and on wielding the special financial proficiencies the Company has developed to maximum effect. I am confident that such emphases will support the Company's successful evolution. In addition, realizing further improvement in consolidated profitability will require business development strategies that give due attention to the key concepts of focus, speed, efficiency, and flexibility.

A high degree of transparency in corporate governance is essential for companies that seek to make important contributions to society and effectively serve the long-term interests of their shareholders. In light of this, in June 1997 ORIX established an advisory board that includes influential members from outside the Company.

During the 21st century, ORIX intends to be a company with a corporate culture that enables it to evoke great esteem in financial markets by creating lasting value, inspiring pride in its employees, and fostering widespread respect and trust. I am convinced that, by sustaining a commitment to this management philosophy, ORIX will steadily increase its capital utilization efficiency and maximize return on shareholders' equity over the long term.

I would also like to thank ORIX's stakeholders for the great cooperation and support they have rendered us during the year.

May 21, 1998

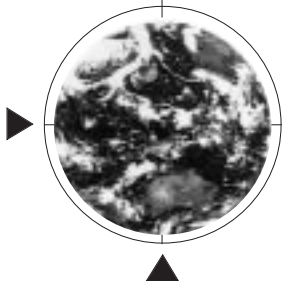


Yoshihiko Miyauchi

President and Chief Executive Officer

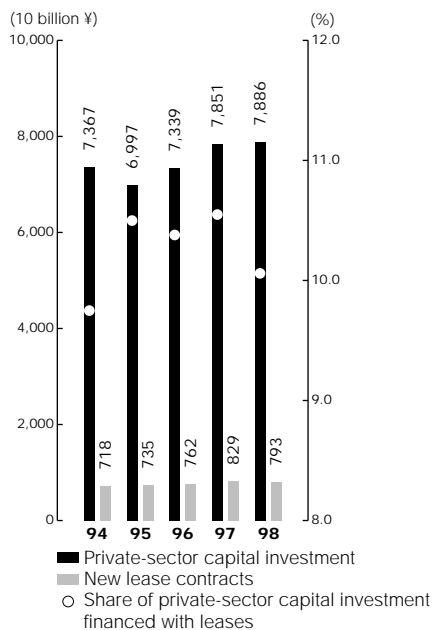


BUSINESS REVIEW



Operations

Private-Sector Capital Investment and New Lease Contracts in Japan



Source: Japan Leasing Association

1. Direct Financing Leases

Direct financing leases are noncancelable during the term of the lease and allow for the recouping of approximately all of the initial cost of the leased item and such related costs as taxes and insurance fees during the initial contractual lease term.

▶ Playing an important role in financing private-sector capital investments, ORIX's direct financing lease operations are principally focused on information-related equipment, office equipment, industrial equipment, commercial services equipment, transportation equipment, and other equipment.

▶ Office equipment—including computers and other information- and communications-related equipment—has supported rapid growth in financing leasing this decade due to the recognition of the merits of leasing with regard to responding to equipment obsolescence and the streamlining of office work. Aiming to disperse risk and maintain strong profitability, ORIX has given special attention to small-ticket leases and employed vendor programs to build new marketing systems while working to expedite its credit check and lease execution procedures as well as streamline its administrative procedures. As a consequence, the Company has succeeded in creating a solid marketing system of unparalleled effectiveness. During the past five years, the plunging prices and rapidly improving performance of personal computers has accelerated growth in companies' investments in information equipment, helping ORIX maintain a steady rise in the value of its new lease contracts.

▶ Despite the sluggishness of domestic demand, ORIX has maintained a strong performance in new lease contracts for industrial equipment, reflecting positive economic trends in the United States, and the balance of such contracts has risen steadily.

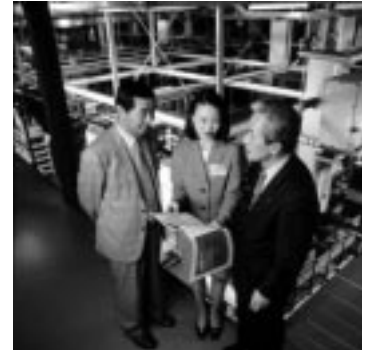
▶ During the first half of the 1990s, ORIX achieved a solid performance in the leasing of commercial services equipment in line with the rapid growth of Japan's leisure industry as well as supermarkets, convenience stores, and other distribution-related companies. ORIX has subsequently



Yuichi Kawamura (far right), General Manager of ORIX's Yokohama Branch, meeting with clients

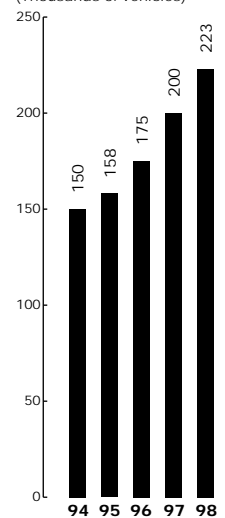
sustained steady growth in the balance of its commercial services equipment lease assets.

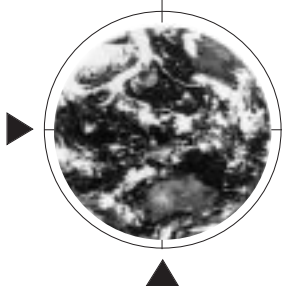
► ORIX's transportation equipment leasing is almost entirely composed of automobile leasing. Domestic operations are chiefly handled by ORIX Auto Leasing Corporation, which specializes in fleet leasing to corporate clients, and overseas operations are being expanded in Australia, New Zealand, Brazil, Hong Kong, Singapore, Malaysia, Indonesia, India, and Pakistan. Demand for automobile leasing services has surged in recent years, reflecting the general trend toward outsourcing and users' appreciation of how automobile leasing services enable the comprehensive consignment to leasing companies of such complicated vehicle management tasks as negotiating with dealers, handling tax and insurance matters, and performing vehicle maintenance.



Auto Leasing by ORIX

(Thousands of vehicles)





Operations



Entrusted calibration work at ORIX
Rentec's Tokyo Technical Center

2. Operating Leases

Operating leases are contracts that allow users to select products that meet their needs from the leasing company's inventory of products. Operating leases differ from direct financing leases in two ways. First, they are generally cancelable. Second, the initial cost of the item is not substantially recouped by the lessor through lease premiums during the initial lease term; therefore, the same item is usually leased out to more than one customer during its useful life. Lessors work to recover their investments and ensure their profitability by ultimately disposing of leased equipment in used equipment markets. ORIX's operating lease portfolio comprises three main market segments: transportation equipment, measuring equipment and personal computer rentals, and dormitories and other.

► The transportation equipment lease segment of the operating lease portfolio is a mixture of aircraft, automobile, and marine vessel leases. ORIX currently has a fleet of three Boeing 737 and 23 Airbus 320 medium-range aircraft and is steadily developing business in transportation-related leasing, principally in the European and North American markets. This subsegment is serviced by Ireland-based ORIX AVIATION SYSTEMS LIMITED.

► ORIX's two main markets for automobile operating leases are Japan and Australia, although the Company is also actively expanding its operations in Hong Kong, Singapore, Malaysia, Indonesia, India, Pakistan, New Zealand, and Brazil. This segment of the portfolio continues to show good growth, fueled by the underlying demand for automobile leasing and rental services. In order to effectively gather information in used vehicle markets and obtain marketing routes for leased-up vehicles, ORIX has established four automobile auction sites throughout Japan. ORIX also established automobile rental operations in Japan and New Zealand, in 1985 and 1997, respectively.

► ORIX is expanding its operating leasing of marine vessels through ORIX Maritime Corporation, which handles commissioned ship management, deals in and brokers sales of ships, and engages in a full range of other marine transport business. ORIX Maritime has the distinction

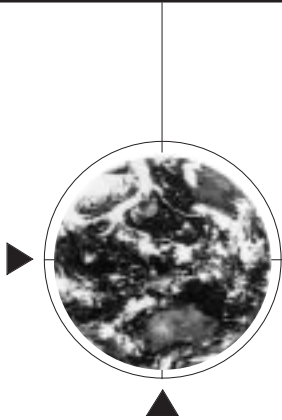


Shonan Auto Plaza, a facility for the auctioning of leased vehicles

ORIX has a nationwide network of 7,200 cooperating facilities that handle the maintenance and repair of leased vehicles.

of handling the largest volume of grain shipments to Japan from North America and Australia of any Japanese shipper for the last four years.

► ORIX Rentec Corporation has become the top company in the domestic measuring and information-related equipment rental segment and maintains an inventory of more than 300,000 items of electronic equipment—including electronic measuring instruments, chemical and environmental analyzers, communications equipment, optical equipment, personal computers, and workstations. ORIX Rentec has gained dominance in the Japanese market by accumulating expertise related to quality assurance and new equipment technologies and then using that expertise to establish superior technical management systems as well as ultramodern distribution systems that enable rapid shipments. It currently maintains two fully automated warehouse facilities—one in the Tokyo metropolitan area and the other in Kobe. The first facilities of their kind in Japan to receive ISO 9002 quality assurance certification,



Operations

the warehouse facilities efficiently manage their inventories and maintain records to ensure that all equipment is recalibrated and serviced as required. To increase returns from the final sale of leased equipment, ORIX operates a web site for used equipment transactions and also regularly organizes auctions of personal computer related equipment.

► ORIX's other operating leasing business includes such real estate business as the lease of dormitories, office buildings, and condominiums.

3. Installment Loans

ORIX has a sizable portfolio of installment loans. In addition to its principal segment of corporate finance loans in Japan and overseas, ORIX's installment loan portfolio contains consumer-related loans to individual clients, and the balance of these loans has risen in recent years.

► This portfolio covers loans to real estate developers as well as general corporate lending. ORIX's real estate related financing operations are focused on solid developers of condominiums and single-family housing, principally in the capital and Kansai regions, and these operations consist of corporate finance provided on the basis of clear-cut cash-flow analyses of individual proposals. ORIX's commercial lending covers the spectrum of Japanese corporate lending, including collateralized loans to the leisure industry and consumer finance companies.

► The portfolio also includes ORIX's overseas ship financing and general corporate lending, primarily carried out in the United States, Hong Kong, and Singapore.

► An additional segment of this portfolio, domestic consumer lending, can be divided into two distinct categories: housing loans and card loans. ORIX home property loan operations provide tailored loans that satisfy various market niches. In its card loan business, the Company maintains a customer base of highly creditworthy individuals to whom it provides small-lot, unsecured financing at appropriate interest rates while consistently applying strict credit evaluation standards. The Company's outstanding balance of card loans is steadily increasing.



ORIX's CLUB CARD is a loan card developed to match the lifestyles of young adults.



Treasury Department

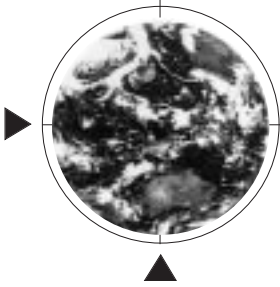
4. Other Operations

Since first entering the life insurance market in 1991, ORIX has efficiently provided high-quality services through its own sales agent system. Four ORIX Group companies are sales agents for ORIX Life Insurance Corporation, and all of the companies' sales staff have the requisite qualifications for salespersons of life insurance.

► In addition to its diverse life insurance sales activities for corporate customers, ORIX has a new range of directly marketed life insurance products, "ORIX Direct," which targets individual customers and has been offered since September 1997. The use of direct marketing methods has enabled the simplification of application procedures as well as the reduction of administrative expenses and the lowering of insurance premiums. Consequently, the lower cost and greater convenience of the new range have supported steady growth in the number of policies issued. This range of products is part of an overall drive by ORIX to increase its presence in the retail finance sector.

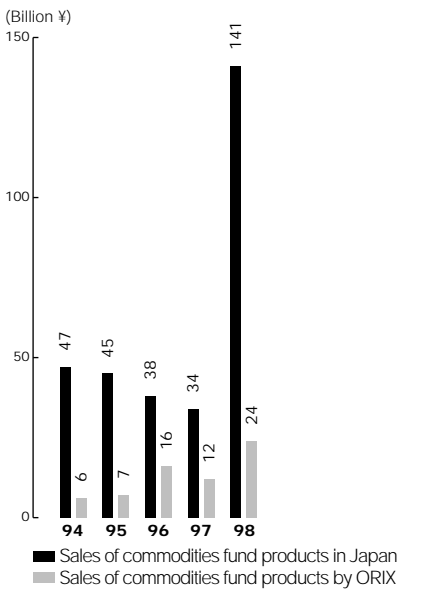


"ORIX Direct"



Operations

Commodities Fund Product Sales



Source: Japan Commodities Fund Association

► Since beginning to organize and market commodities funds in 1989, ORIX has used its strong sales capabilities to maintain an accumulated market share of approximately 25% from 1989 through the fiscal year under review. As Japanese regulations related to the minimum size of investment units are to be eliminated in June 1998, ORIX is expanding its marketing activities to individuals while maintaining its corporate marketing operations.

► ORIX Securities Corporation joined the ORIX Group in 1986 and became a wholly owned subsidiary of ORIX Corporation in 1997. A full member of both the Tokyo and Osaka securities exchanges, ORIX Securities is expected to generate growing synergistic benefits through cooperation with other Group companies in capital markets.

► ORIX's Real Estate Business Headquarters engages in housing and other real estate development business and the leasing and management of commercial real estate in the capital and Kansai regions. Having equipped itself with integrated capabilities for all processes—from land acquisition through project planning, construction, and marketing—ORIX engages in a growing volume of the development and sale of condominium apartments, a new source of income. ORIX also operates the Cross Wave corporate training facility near Tokyo, three golf courses throughout Japan, and the BlueWave Inn, in Tokyo. Overseas, U.S.-based ORIX Real Estate Equities, Inc., has maintained a strong performance in build-to-suit development business predicated on the prior arrangement of long-term leases or sales contracts that ensure future income flows. This dynamic development business has been made possible by ORIX's solid financial position as well as the abundant experience the Company has accumulated.

► In 1983, ORIX established ORIX Capital Corporation to engage in the provision of venture capital and related consultancy services for companies that have the potential to seek public share listings as their business expands.

► In 1997, ORIX established its Personal Financial Services (PFS) team to promote ORIX's personal financial service business development.



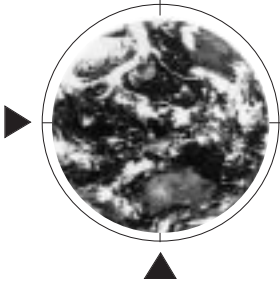
Evaluating customers' life insurance needs

Inside a model condominium unit

Japanese individuals are said to have approximately ¥1,200 trillion in financial assets, and Japan's current and future financial reform measures are expected to facilitate ORIX's efforts to provide individuals with a growing range of financial services.

▶ Among other members in the ORIX Group of companies, we have a professional baseball team named ORIX BlueWave, acquired in 1988 as part of an overall move to raise ORIX's corporate image. ORIX has a minority stake in SKYMARK AIRLINES CO., LTD., a company established in 1996 to take advantage of deregulation measures, which are expected to lead to the company becoming Japan's fourth major domestic carrier.

▶ After the end of the fiscal year under review, in April 1998 ORIX acquired Yamaichi Trust & Bank, Ltd. By equipping the ORIX Group with settlement and trust banking capabilities, the acquisition has positioned the Group to further broaden the scope of the financial services it offers.



R*egions*

Since setting up its first overseas base in Hong Kong in 1971, ORIX has energetically expanded its overseas operations. The Company has founded local subsidiaries, cooperated with leading financial institutions to create local joint ventures, and otherwise broadened its presence by establishing a global network of 45 companies in 21 countries outside Japan.



1. Americas Region

After opening a liaison office in 1974, ORIX commenced formal operations in the United States in 1981 when it established wholly owned ORIX USA CORPORATION (OUC).

► OUC offers a wide range of financial products and services encompassing corporate finance, real estate finance, equipment leasing, and investment and financing in the mortgage capital market.

► ORIX Commercial Alliance Corporation (OCAC) specializes in the leasing of trucks as well as other transportation and construction



ORIX USA CORPORATION



Yoshio Ono, Director and Regional Chief Executive, Americas Region

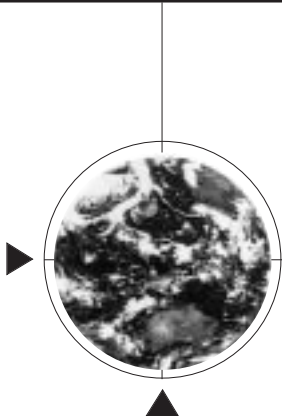
equipment, and it cooperates with manufacturers and dealers to promote sales.

► ORIX Real Estate Equities, Inc. (OREE), focuses on the built-to-suit development of retail, industrial, and office projects, the acquisition of office and industrial properties that offer value-enhancement opportunities, and property management.

► Banc One Mortgage Capital Markets, LLC., was established in 1997 as a joint venture between ORIX and BANC ONE CORP. This venture targets the securitization and servicing of loans secured by commercial property.

► Since 1989, ORIX has been involved in the field of commodities trading and management, primarily through a 38% stake in Bermuda-based Stockton Holdings Limited. In addition to its trading of diverse commodities and financial futures products, Stockton Holdings is engaged in reinsurance business.

► ORIX made its initial investment in South America in 1973, taking a 25% stake in Bradesco Leasing S.A. Arrendamento Mercantil, a general



Regions

machinery and equipment lessor as well as a pioneer of lease financing in Brazil. This was followed in 1980 by a 35% investment in Leasing Andino S.A., Chile's largest lessor. In 1997, ORIX established a wholly owned specialist automobile lessor, ORIX Auto Locadora Ltda., in Brazil.



2. Asia & Oceania Region

As of March 31, 1998, ORIX operated a network of 28 Group companies in 12 countries in the Asia and Oceania region. Hong Kong-based ORIX Asia Limited has been the hub for expanding operations in the region, providing a wide range of financial services and holding a Restricted Licensed Bank registration. Singapore has become another important center for business in the region, and ORIX Group companies based there are engaged in operations that include those involving leasing, rentals, marine vessel financing, securities investments, and venture capital investments.

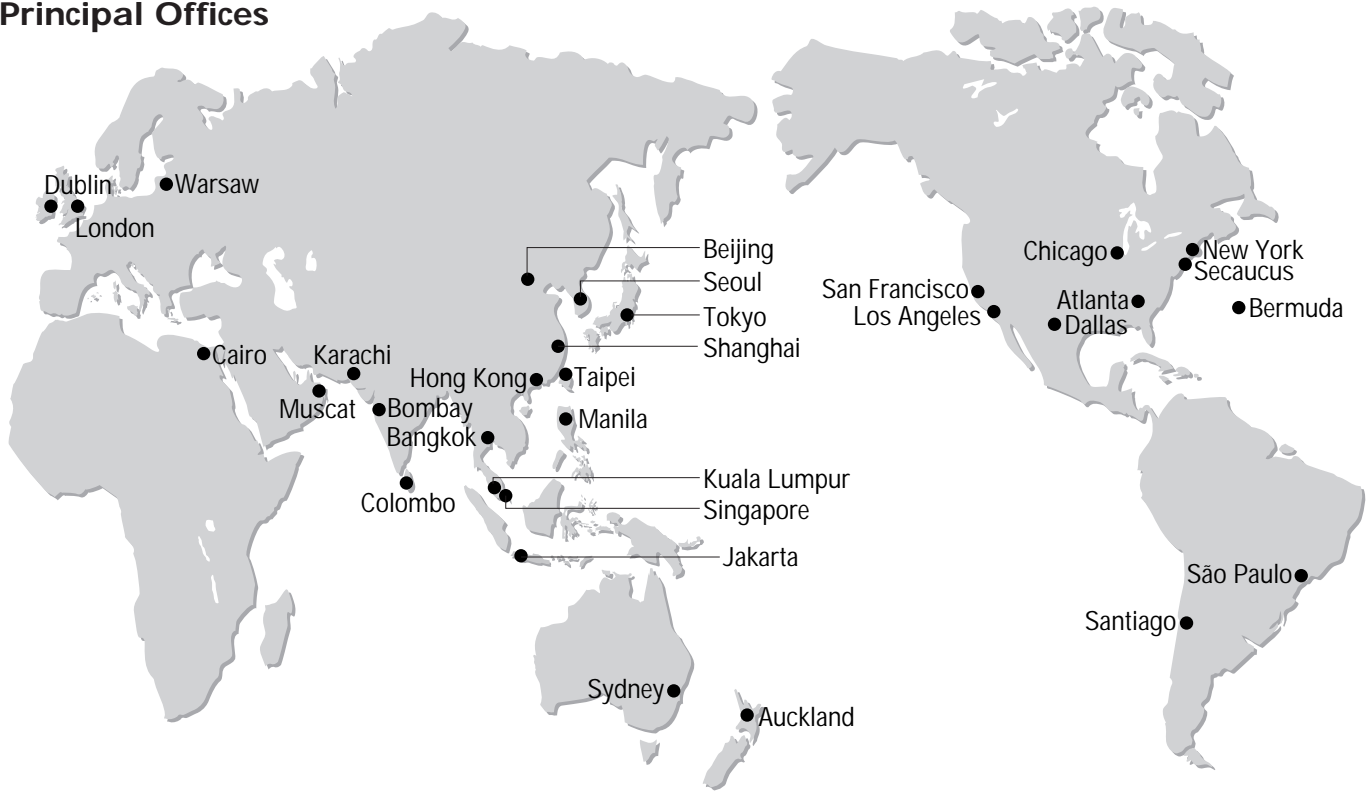
► In 1986, ORIX established ORIX Australia Corporation Limited, which was followed by the establishment of ORIX New Zealand Limited in 1988. These companies specialize in automobile leasing and financing. The recent inclusion in the ORIX Group of Australia-based Ranger Truck Rental and Leasing Pty. Ltd., a truck rental concern, has helped expand total assets as well as the underlying base of services offered.

► Specialist automobile leasing operations have been established in Hong Kong, Singapore, and Malaysia, and ORIX Rentec has established personal computer and measuring equipment rental operations in Malaysia and Singapore. In addition, ORIX has set up a company in Shanghai to promote its own credit card in China's southern provinces and adjacent regions.

► In 1993, ORIX acquired an infrastructure financing and general leasing concern in India. In 1995, the Company established a specialist automobile leasing subsidiary.

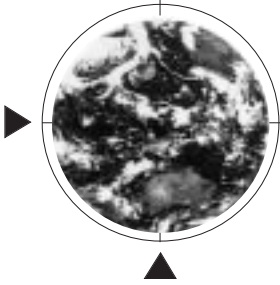
► Although ORIX provides a broad range of financial products and services throughout the Asia and Oceania region, its primary focus has

Principal Offices



been on leasing business. It has successfully introduced lease financing to many of the countries in this region and has become a leading lessor in these countries. Korea Development Leasing Corporation (South Korea) and Lanka ORIX Leasing Company Limited (Sri Lanka) have listed their shares on the stock markets of Seoul and Colombo, respectively.





Regions



3. Middle Eastern & North African Region

ORIX started activities in the Middle Eastern and North African region in 1986, when it entered into a joint venture with local Pakistani investors to form ORIX Leasing Pakistan Limited (OLP), which steadily expanded its operations and improved its performance, publicly listing its shares in 1988. In 1995, ORIX cooperated with OLP to establish a joint venture, ORIX Investment Bank Pakistan Limited, which is also a listed company.

- ▶ In 1994, OLP and Oman's largest insurance company formed a joint venture, OMAN ORIX LEASING COMPANY SAOG, which has listed its shares.
- ▶ In 1997, ORIX Corporation and OLP formed Egypt's first leasing company, ORIX Leasing Egypt, S.A.E., responding to the passage of legislation that enabled the provision of lease financing.

4. European Region

ORIX started its activities in Europe in 1974, when it established a liaison office in London.

- ▶ From its start in 1982, ORIX EUROPE LIMITED (OEL) has expanded in such areas as international ship financing, real estate related financing, the international bond and securities markets, and corporate project finance.
- ▶ In 1988, ORIX IRELAND LIMITED was established in the International Financial Services Centre in Dublin, Ireland, as a finance vehicle for ORIX's European operations. Also established in Dublin, in 1991, ORIX AVIATION SYSTEMS LIMITED is working to develop ORIX's international aircraft operating lease business.
- ▶ In 1995, ORIX expanded its activities into central and Eastern Europe with the formation of ORIX Polska S.A., an equipment leasing company in Warsaw.



Financial Section

Management's Discussion and Analysis of Operations

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Management's Discussion and Analysis of Operations

1. Economic Environment

▶ In the United States, stable prices and a rise in employment combined to support firm personal consumption. Stock prices reached record highs, and economic growth proceeded steadily.

▶ In contrast, a currency crisis that began with the plunge of the Thai baht in July 1997 subsequently spread to many Southeast Asian countries as well as Korea. This crisis has greatly undermined confidence in economic prospects throughout Asia, and considerable concern remains regarding its resolution.

▶ Against this backdrop, the Japanese economy initially maintained a very gradual pace of recovery, but personal consumption remained weak due to factors that included the April 1997 rise in the national consumption tax rate, to 5%, and moves to increase the portion of medical expenses borne by patients. During the latter half of the fiscal year, a general slowing of growth in private-sector capital investment and a drop in exports to Asia prompted corporate managers to project harsher operating environments.

Throughout the year, the official discount rate remained at the extremely low level of 0.5%, and market interest rates were also stable overall. From fall 1997, however, the bankruptcies of several major financial institutions and other circumstances led to the so-called Japan premium, a reluctance on the part of banks to lend, and other problems that destabilized the domestic financial system.

▶ Consequently, the Japanese economy is estimated to have shrunk during the fiscal year as a whole, the first such shrinkage since the 1973 oil crisis. The government is planning to implement economic stimulation measures, including a reform of the corporate income tax system and a temporary personal income tax reduction. However, in light of the continued negative effect on financial institutions of the collapse of the bubble economy and the severe economic problems of many Asian countries, it is feared that economic conditions in Japan will further deteriorate.

2. Performance Summary

► Amid the operating environment just described, ORIX engaged in prudent marketing activities while maintaining an emphasis on profitability. As a result, the Company expanded its clientele at a brisk rate, and consolidated operating assets advanced more than 5.4% from the previous fiscal year, to the record high of ¥4,982.2 billion (\$37.4 billion). Total assets also attained a new high, reaching ¥5,574.3 billion (\$41.8 billion). Supported by strong domestic performances in direct financing leases, operating leases, and life insurance operations as well as in various business fields

in the United States, total revenues were up 18.9%. Total expenses grew 19.0%, reflecting increases in the provision for doubtful receivables and loan losses, in the depreciation of operating lease assets, and in selling, general and administrative expenses. Thus, income before income taxes rose 4.1%, to ¥38,412 million (\$288 million). Boosted by a decline in the effective corporate income tax rate, net income increased 24.6%, to the record level of ¥23,731 million (\$178 million). Net income per share was ¥366.40 (\$2.75), up 24.8% from the previous fiscal year.

Revenues and Expenses

(Millions of yen)

	1998	1997	Change	Percent change
Total revenues	¥489,015	¥411,343	¥77,672	18.9
Direct financing leases	149,369	136,661	12,708	9.3
Operating leases	97,668	91,971	5,697	6.2
Interest on loans and investment securities	95,033	89,487	5,546	6.2
Life insurance premiums and related investment income	126,031	82,296	43,735	53.1
Total expenses.....	457,974	384,781	73,193	19.0
Net interest expense.....	138,748	128,592	10,156	7.9
Life insurance costs.....	115,876	73,886	41,990	56.8
Selling, general and administrative expenses.....	79,671	70,902	8,769	12.4
Net income.....	23,731	19,044	4,687	24.6

Assets

(Millions of yen)

	1998	1997	Change	Percent change
Investment in direct financing leases	¥2,186,022	¥2,067,616	¥118,406	5.7
Installment loans	1,794,825	1,700,697	94,128	5.5
Investment in operating leases.....	435,066	465,737	(30,671)	(6.6)
Investment in securities	500,449	434,488	65,961	15.2
Other operating assets	65,838	58,193	7,645	13.1
Total operating assets	4,982,200	4,726,731	255,469	5.4
Other	592,109	363,244	228,865	63.0
Total assets.....	¥5,574,309	¥5,089,975	¥484,334	9.5

New Business Volumes

(Millions of yen)

	1998	1997	Change	Percent change
Direct financing leases (purchase cost basis)	¥1,093,519	¥886,806	¥206,713	23.3
Installment loans	715,030	593,074	121,956	20.6
Operating leases	98,566	92,932	5,634	6.1
Debt securities and funds in trust.....	217,225	135,324	81,901	60.5

3. Operating Results

Revenues

► Total revenues increased 18.9%, to ¥489,015 million (\$3,669 million). The factors underlying this rise are explained in the following subsections.

Direct Financing Leases—The balance of investment in direct financing leases grew 5.7%, to ¥2,186,022 million (\$16,400 million). In Japan, the deterioration of economic conditions diminished demand for direct financing leases, depressing growth in new lease contracts overall. However, responding to needs associated with the trend toward corporate outsourcing, new

automobile lease contracts grew steadily. This and the acquisition of a portion of the operating assets of Crown Leasing Corporation boosted the balance of investment in domestic direct financing leases to a level above that of the previous year-end. Despite a decline in Asia, the balance of investment in overseas direct financing leases also grew, largely due to rises in leases of construction equipment and other products in the United States. Thus, revenues from investment in direct financing leases advanced 9.3%, to ¥149,369 million (\$1,121 million).

Investment in Direct Financing Leases

(Millions of yen)

	1998	1997	Change	Percent change
Information-related and office equipment	¥ 623,203	¥ 557,439	¥ 65,764	11.8
Industrial equipment	473,140	436,813	36,327	8.3
Commercial services equipment	273,730	226,118	47,612	21.1
Transportation equipment	443,486	458,572	(15,086)	(3.3)
Other	372,463	388,674	(16,211)	(4.2)
	<u>¥2,186,022</u>	<u>¥2,067,616</u>	<u>¥118,406</u>	5.7

Operating Leases—In Japan, against the backdrop of rapid growth in mobile communications products, the Company responded to strong demand for measuring equipment as well as personal computers, workstations, and other information-related items prone to quickly becoming obsolete by aggressively expanding its new investment in these products. Overseas, the Company purchased one aircraft, but the sale of two other aircraft reduced the total fleet size to 26. The Company also sold an office building

in the United States as well as certain other assets, reducing the balance of its investment in operating leases 6.6%, to ¥435,066 million (\$3,264 million).

► Largely because ORIX maintained stable revenues from transportation equipment and expanded its measuring, analytical, and information-related equipment rental business, the Company was able to boost its revenues from operating leases 6.2%, to ¥97,668 million (\$733 million).

Investment in Operating Leases

(Millions of yen)

	1998	1997	Change	Percent change
Transportation equipment	¥195,392	¥205,277	¥ (9,885)	(4.8)
Measuring equipment and personal computers	59,989	53,740	6,249	11.6
Real estate and other	179,685	206,720	(27,035)	(13.1)
	<u>¥435,066</u>	<u>¥465,737</u>	<u>¥(30,671)</u>	(6.6)

Installment Loans and Investment in Securities—The balance of ORIX's installment loans advanced 5.5%, to ¥1,794,825 million (\$13,466 million). In Japan, the Company increased its loans to corporate customers, largely customers in commercial service industries, as well as the balance of its card loans to individuals. Overseas, the Company was able to steadily expand its corporate finance business, reflecting the strength of the U.S. economy.

► The balance of ORIX's investment in securities grew 15.2%, to ¥500,449 million (\$3,755 million). This reflected an increase in investment, principally in highly secure bonds.

► Although domestic interest rates remained low, ORIX's revenues from interest on loans and investment in securities rose 6.2%, to ¥95,033 million (\$713 million).

Installment Loans

(Millions of yen)

	1998	1997	Change	Percent change
Domestic borrowers:				
Consumers:				
Housing loans	¥ 426,559	¥ 435,388	¥ (8,829)	(2.0)
Card loans	98,187	78,438	19,749	25.2
Other	55,811	67,902	(12,091)	(17.8)
	<u>580,557</u>	<u>581,728</u>	<u>(1,171)</u>	<u>(0.2)</u>
Commercial:				
Real estate related companies	213,911	193,578	20,333	10.5
Commercial and industrial companies	607,952	558,232	49,720	8.9
	<u>821,863</u>	<u>751,810</u>	<u>70,053</u>	<u>9.3</u>
	<u>1,402,420</u>	<u>1,333,538</u>	<u>68,882</u>	<u>5.2</u>
Foreign commercial, industrial, and other borrowers	377,761	351,053	26,708	7.6
Loan origination costs, net	14,644	16,106	(1,462)	(9.1)
	<u>¥1,794,825</u>	<u>¥1,700,697</u>	<u>¥ 94,128</u>	<u>5.5</u>

Investment in Securities

(Millions of yen)

	1998	1997	Change	Percent change
Trading securities	¥ 46	¥ 82	¥ (36)	(43.9)
Available-for-sale securities	451,074	409,722	41,352	10.1
Held-to-maturity securities	3,127	3,223	(96)	(3.0)
Other securities	46,202	21,461	24,741	115.3
	<u>¥500,449</u>	<u>¥434,488</u>	<u>¥65,961</u>	<u>15.2</u>

Brokerage Commissions and Gains on Investment Securities—Despite severe stock market conditions, ORIX maintained solid net profitability in its domestic securities brokerage operations. In addition, gains on securities investments in the United States led to a rise in total gains on investment securities. As a result, brokerage commissions and gains on investment securities were up 83.1%, to ¥7,213 million (\$54 million). **Life Insurance Premiums and Related Investment Income**—In addition to a contract value rise in previously initiated

life insurance agency business, the Company launched a new range of directly marketed life insurance products, "ORIX Direct," in September 1997. These factors led to an increase in life insurance premiums. In addition, the sale of a portion of bonds used to manage funds caused an increase in related investment income. Thus, life insurance premiums and related investment income surged 53.1%, to ¥126,031 million (\$946 million).

Other Operating Revenues—Factors including a rise in income from sales of residential apartments developed by the Company as well as commission income from leveraged lease, commodities fund, and other businesses boosted other operating revenues 96.1%, to ¥13,701 million (\$103 million).

Expenses

▶ Total expenses increased 19.0%, to ¥457,974 million (\$3,436 million). The factors underlying this rise are explained in the following subsections.

Net Interest Expense—Amid the continued low interest rate environment, ORIX was able to reduce its funding costs by increasing its use of CP issuance and other direct funding methods. However, interest expense rose 7.9%, to ¥138,748 million (\$1,041 million), reflecting an increase in fund procurement requirements that accompanied the purchase of operating assets and other new investments.

Depreciation of Operating Leases—Reflecting an increase in operating lease related investment in personal computers and other products with relatively rapid depreciation rates, depreciation of operating leases was up 7.6%, to ¥59,222 million (\$444 million).

Life Insurance Costs—The outstanding balance of policy liabilities jumped 48.6%, to ¥221,455 million (\$1,661 million), due to a rise in contract values and the introduction of insurance products that call for customers to make a single premium payment at the beginning of the contract period. Reflecting this increase and other factors, life insurance costs surged 56.8%, to ¥115,876 million (\$869 million).

Selling, General and Administrative Expenses—Accompanying the expansion of marketing office networks and operations, selling, general and administrative expenses rose 12.4%, to ¥79,671 million (\$598 million).

Provision for Doubtful Receivables and Loan Losses—Made as a means of dealing with assets from the bubble economy period that subsequently became problem assets, the provision for doubtful receivables and loan losses for fiscal 1998 amounted to ¥58,186 million

(\$437 million), of which ¥32,091 million was written off and the remaining ¥26,095 million was added to the balance. At period-end, the balance of the allowance for doubtful receivables on direct financing leases and loan losses stood at ¥145,741 million (\$1,093 million), and the ratio of this figure to the balance of direct financing leases and loans was 3.7%.

▶ Despite growth in the value of operating assets from leasing operations, the Company's strategy to disperse risk by focusing on small-ticket leases has kept the incidence of doubtful receivables extremely low and maintained a high degree of profitability in such business.

▶ In installment loan business, ORIX has carefully extended new loans based on strict credit evaluation standards, thereby expanding its portfolio of solid operating assets while maintaining a low rate of doubtful receivables. However, the Company conservatively increased its reserves for possible loan losses in light of the rising incidence of corporate and personal bankruptcies in Japan and the effects of the currency crisis on the Asian region. Impaired loans have been measured based on the fair value of the collateral in accordance with FASB Statement No. 114 ("Accounting by Creditors for Impairment of a Loan") since March 1996. Although domestic residential property prices have stabilized, continued declines in Japan's commercial land prices caused a portion of real estate collateral to be revalued and additional provisions for doubtful receivables and loan losses to be made during the period under review. The Company has also made direct charge-offs for impaired long-lived 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"). Provisions for doubtful receivables and loan losses have been provided for from income generated by ordinary business activities. Such provisions have strengthened the Company's financial position, and management is confident that the Company has maintained a sufficiently sound financial position.

Allowance for Doubtful Receivables on Direct Financing Leases and Loan Losses at March 31	(Millions of yen)	
	1998	1997
Beginning balance	¥117,567	¥ 81,886
Provisions charged to income	58,186	57,748
Charge-offs	(32,091)	(25,991)
Other*	2,079	3,924
Ending balance	¥145,741	¥117,567
Investment in direct financing leases and installment loans.....	¥3,980,847	¥3,768,313
Allowance for doubtful receivables on direct financing leases and loan losses/investment in direct financing leases and installment loans.....	3.7%	3.1%

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

Foreign Currency Transaction Loss (Gain), Net—Because Asia-based subsidiaries procured a portion of their funding through U.S. dollar denominated loans, the depreciation of local currencies against the U.S. dollar as well as other factors led to the recording of a ¥6,271 million (\$47.0 million) net foreign currency transaction loss.

Equity in Net Income of Affiliates and Gains on Sales of Affiliates—Despite the strong profitability of futures business in Bermuda, gains on sales of stock in a leasing company in Canada, and profits of leasing joint ventures in Japan, Brazil, and Chile that were established in cooperation with financial institutions, a considerable decline in the income of affiliates in Asia caused equity in net income of affiliates and

gains on sales of affiliates to fall 28.6%, to ¥7,371 million (\$55.3 million).

Income Taxes

► In line with changes to normal Japanese tax rates effective from April 1998, provisions for deferred tax liabilities were reduced ¥6,315 million (\$47.4 million), and provision for income taxes decreased 17.7% from the previous fiscal year, to ¥14,681 million (\$110 million). Because of the effect of normal income tax rate changes and a large drop in deferred income tax on unrealized gains on investment securities, the deferred tax balance was a liability of ¥113,531 million (\$852 million), down 11.0%.

4. Cash Flows

▶ With respect to adjustments to reconcile net income to net cash provided by operating activities during the fiscal year, depreciation of operating leases accounted for a cash inflow of ¥59,222 million (\$444 million), up 7.6%, and an increase in policy liabilities accounted for a cash inflow of ¥72,432 million (\$543 million), up 78.6%. In addition, reflecting the transfer of operating assets from Crown Leasing, both total revenues and net interest expense rose, with total revenues growing 18.9%, to ¥489,015 million (\$3,669 million), and net interest expense advancing 7.9%, to ¥138,748 million (\$1,041 million). Thus, net cash provided by operating activities increased 24.6%, to ¥246,560 million (\$1,850 million).

▶ Primarily because operating assets increased due to factors including the previously mentioned purchase

of operating assets, net cash used in investing activities rose 36.3%, to ¥383,241 million (\$2,875 million).

▶ Regarding financing activities, the balance of outstanding CP grew 10.6%, to ¥1,109.0 billion (\$8,320 million), and the balance of bonds was increased with the goal of financing the acquisition of operating assets and raising the liquidity of operating funds. Moreover, in view of the general reluctance of Japanese banks to extend new loans, proceeds from the securitization of lease receivables were considerably increased to augment the Company's sources of stable funding. Consequently, net cash provided by financing activities increased ¥270,124 million (\$2,027 million), to ¥319,212 million (\$2,395 million).

▶ Cash and cash equivalents at the end of the fiscal year stood at ¥268,215 million (\$2,012 million), up ¥179,324 million (\$1,345 million).

5. Operating Profit by Industry Segment

▶ The investment of ¥2.2 trillion (\$16.5 billion) in direct financing leases accounted for approximately 40% of ORIX's total assets and generated a large share of the Company's revenue and income before income taxes

during the term. Approximately ¥1.9 trillion (\$14.3 billion) of funds were invested in installment loans and investment securities, while about ¥500 billion (\$3,751 million) of funds were invested in operating leases.

Performance by Industry Segment

Income before Income Taxes

(Millions of yen)

	1998	1997	Change	Percent change
Direct financing leases	¥52,456	¥55,497	¥(3,041)	(5.5)
Installment loans and investment securities	(24,021)	(22,445)	(1,576)	—
Operating leases	(2,521)	(3,756)	1,235	—
Securities brokerage and trading	3,420	1,004	2,416	240.6
Life insurance operations	5,892	4,772	1,120	23.5
Other operations	3,001	(1,800)	4,801	—
Subtotal	38,227	33,272	4,955	14.9
Corporate	(7,186)	(6,710)	(476)	—
Total	31,041	26,562	4,479	16.9
Affiliates' operations	7,371	10,327	(2,956)	(28.6)
Consolidated income before income taxes	¥38,412	¥36,889	¥ 1,523	4.1

Assets

(Millions of yen)

	1998	1997	Change	Percent change
Direct financing leases	¥2,237,764	¥2,095,369	¥142,395	6.8
Installment loans and investment securities	1,903,062	1,804,079	98,983	5.5
Operating leases.....	495,922	530,980	(35,058)	(6.6)
Securities brokerage and trading	74,025	78,326	(4,301)	(5.5)
Life insurance operations.....	238,032	160,353	77,679	48.4
Other operations	116,804	96,097	20,707	21.5
Subtotal	5,065,609	4,765,204	300,405	6.3
Corporate	413,613	232,482	181,131	77.9
Total	5,479,222	4,997,686	481,536	9.6
Affiliates' operations.....	95,087	92,289	2,798	3.0
Consolidated.....	¥5,574,309	¥5,089,975	¥484,334	9.5

Direct Financing Leases

► The balance of domestic direct financing lease assets was restrained by slack economic conditions, reflecting a downturn in demand that followed an acceleration of demand during fiscal 1997 in anticipation of a rise in the national consumption tax rate. However, ORIX was able to increase the balance of its direct financing lease investment due to a strong performance in OA equipment leasing and other small-ticket leases, growth in automobile leasing, the purchase of operating assets from Crown Leasing, and other factors.

► Amid sluggish growth in demand for leases, the Company avoided rate-based competition and continued energetically expanding its small-ticket leasing business, aiming to thereby disperse risks and sustain superior profitability.

► Having positioned automobile leasing within overall Group operations as a strategic growth business, ORIX has striven to develop this business. The Company has worked to further strengthen its nationwide agency network and striven to develop the market for corporate fleet leasing involving multiple-vehicle transactions. As a result, the number of ORIX-owned vehicles at fiscal year-end was more than 220,000, up 11.4% from the previous year, and

automobile leasing has continued to be a stable source of profits.

► Overseas, positive economic conditions in the United States supported a high level of profit in leasing operations, which made a considerable contribution to the Company's consolidated income. However, the Asian currency crisis led to a considerable deterioration of the profitability of leasing business in Asian countries. This and the recording of currency exchange losses led to a decrease in income before income taxes in direct financing lease business.

► Thus, income before income taxes for this industry segment decreased 5.5%, to ¥52,456 million (\$394 million). The balance of assets of the segment rose 6.8%, to ¥2,237,764 million (\$16,789 million).

Installment Loans and Investment Securities

► ORIX continued to extend new loans to domestic companies while giving thorough attention to borrowers' business plans and maintaining a high level of selectivity based on strict credit evaluation standards.

► In the domestic consumer loan category, the Company has steadily increased its balance of card loans while emphasizing prudent evaluations of creditworthiness.

▶ With respect to overseas operations, ORIX steadily expanded its corporate finance business, reflecting the positive trends in the United States.

▶ The Company engaged in securities investment activities while giving due attention to risk dispersal measures.

▶ As a result of these activities, the balance of installment loans and investment securities increased 5.5%, to ¥1,903.1 billion (\$14.3 billion).

▶ As in the previous year, ORIX made substantial provisions for doubtful receivables and loan losses, causing the Company to record a ¥24,021 million (\$180 million) loss before income taxes in its installment loans and investment securities business.

Operating Leases

▶ ORIX increased its new operating lease investment but recovered a portion of invested funds through the sale of aircraft and an office building in the United States. Thus, the balance of the Company's assets in operating leases slipped 6.6%, to ¥495,922 million (\$3,721 million).

▶ In Japan, the Company effectively responded to customer needs related to the rental of measuring equipment and computer-related products by maintaining rigorous calibration and quality assurance standards. Revenues from such rental operations thus continued to increase, and these operations contributed to the overall profitability of operating lease business.

▶ In aircraft leasing operations, ORIX maintained a fleet of 23 Airbus 320 and three Boeing 737 medium-range aircraft and developed related business primarily in North America and Europe.

▶ Regarding automobile leasing, ORIX expanded its domestic marketing base by increasing the number of

its franchisees and through other measures. Overseas, the Company proceeded with the development of its automobile leasing operations in Australia, numerous Asian countries, and elsewhere.

▶ Using conservative depreciation methods, the Company recorded a ¥2,521 million (\$18.9 million) loss before income taxes in operating lease business, reflecting additional provisions made for impaired long-lived assets in accordance with FASB Statement No. 121.

Securities Brokerage and Trading

▶ Income before income taxes from securities brokerage and trading grew ¥2,416 million (\$18.1 million), to ¥3,420 million (\$25.7 million), reflecting a rise in gains on the sale of debt securities and the continued net profitability of securities brokerage operations.

Life Insurance Operations

▶ A contract value rise in life insurance operations aimed at corporate customers led to an increase in life insurance premiums. The outstanding balance of policy liabilities jumped 48.6%, to ¥221,455 million (\$1,661 million), and a similar rise was seen in segment assets. As a result, income before income taxes in life insurance operations surged 23.5%, to ¥5,892 million (\$44.2 million).

Other Operations

▶ Income before income taxes from other business activities surged to ¥3,001 million (\$22.5 million), due to the strength of such fee-based businesses as those involving commodities funds and leveraged leases—for aircraft, for example—as well as sales of residential apartments developed by the Company.

Affiliates' Operations

► Income from ORIX's equity in net income of affiliates amounted to ¥7,371 million (\$55.3 million).

► The earnings of a Bermuda-based Group company engaged in trading in global futures markets and reinsurance business remained high, although below the record high level of the previous year. The profitability levels of joint ventures in Brazil and Chile improved steadily, and profit was recorded from the sale of a shareholding in a Canadian lease company,

COMMCORP FINANCIAL SERVICES INC. In addition, domestic leasing companies established in cooperation with regional banks and other partners maintained their profitability and thus contributed to consolidated profitability. Because of the deterioration of economic conditions in Asia, however, many Group companies in the region recorded sharp drops in their income and some companies recorded losses. Thus, equity in net income of affiliates was down considerably.

6. Operating Profit by Geographic Segment

Performance by Geographic Segment

Income before Income Taxes

(Millions of yen)

	1998	1997	Change	Percent change
Japan	¥25,890	¥17,820	¥ 8,070	45.3
The Americas	16,944	10,575	6,369	60.2
Asia and Oceania.....	(2,801)	9,047	(11,848)	—
Europe.....	(1,806)	(4,170)	2,364	—
Subtotal	38,227	33,272	4,955	14.9
Corporate	(7,186)	(6,710)	(476)	—
Total.....	31,041	26,562	4,479	16.9
Affiliates' Operations	7,371	10,327	(2,956)	(28.6)
Consolidated	¥38,412	¥36,889	¥ 1,523	4.1

Assets

(Millions of yen)

	1998	1997	Change	Percent change
Japan	¥3,802,425	¥3,459,566	¥342,859	9.9
The Americas	621,429	600,630	20,799	3.5
Asia and Oceania	419,013	462,352	(43,339)	(9.4)
Europe.....	222,742	242,656	(19,914)	(8.2)
Subtotal	5,065,609	4,765,204	300,405	6.3
Corporate.....	413,613	232,482	181,131	77.9
Total	5,479,222	4,997,686	481,536	9.6
Affiliates' Operations	95,087	92,289	2,798	3.0
Consolidated	¥5,574,309	¥5,089,975	¥484,334	9.5

▶ Excluding assets under the category Corporate, ORIX had approximately ¥5.1 trillion (\$38.3 billion) in assets, of which approximately 75%, or ¥3,802.4 billion (\$28.5 billion), was invested in Japan, and 12%, or ¥621.4 billion (\$4,662 million), was invested in the Americas. Approximately 8.3%, or ¥419.0 billion (\$3,144 million), was invested in Asia and Oceania, while 4.4%, or ¥222.7 billion (\$1,671 million), was invested in Europe. Within the Asia and Oceania region, the balance of assets in Asia was approximately ¥300.0 billion (\$2,251 million), of which ¥153.1 billion (\$1,149 million) was denominated in local currencies other than U.S. dollars.

▶ The Company recorded strong performances in small-ticket leasing of such products as OA equipment; automobile leasing; operating leases of such products as measuring instruments; life insurance operations; and diverse fee business. Income before income taxes from Japanese operations increased 45.3%, to ¥25,890 million (\$194 million), reflecting provisions for doubtful receivables and loan losses

against the non-performing assets that arose from the collapse of the bubble economy.

▶ Regarding the Americas, positive economic trends in the U.S. economy enabled ORIX to sustain a strong performance in leasing business. The Company also derived considerable profit from the management and sale of investment securities as well as other activities. As a result, income before income taxes jumped 60.2%, to ¥16,944 million (\$127 million).

▶ Sharp economic changes due to the Asian currency crisis caused income before income taxes in the Asia and Oceania region to decrease substantially, to a loss of ¥2,801 million (\$21.0 million).

▶ In Europe, factors including the application of conservative depreciation policies for operating leases resulted in the recording of a loss, although this loss was smaller than that in the previous fiscal year, reflecting the improvement in aircraft leasing.

▶ As mentioned, investment in affiliates decreased from the level at the previous fiscal year-end, reflecting the performance deterioration of companies in Asia.

7. Funding and Liquidity

▶ The issuance of CP in Japan by financial companies was first permitted in June 1993, and ORIX began the domestic issuance of CP the following month. In July 1996, CP-related restrictions were further relaxed through moves to increase permissible issuance volumes and eliminate restrictions on rollovers. In April 1998, the direct sale of CP to investors without the assistance of dealers became permitted, and ORIX executed its first direct CP issuance in Japan. This is expected to enable ORIX to engage in direct fund procurement activities in a

more-flexible manner and thereby considerably reduce its fund procurement costs. In Japan, during fiscal 1998 the Company made seven issues of straight bonds with a total value of ¥105.0 billion (\$788 million) and, in connection with the introduction of a warrant plan (employees' incentive plan), issued ¥3.0 billion (\$22.5 million) in bonds with warrants. The Company also procured ¥387.4 billion (\$2,906.4 million) from asset-backed securities (ABSs) and took other measures to increase the diversity of its fund procurement sources.

► Overseas, to meet needs arising from the energetic expansion of local Group companies' operations as well as the growth of marine vessel and aircraft-related business, the Company proceeded with the procurement of funding appropriate for the relevant applications.

► Consequently, ORIX's outstanding balance of CP in Japan and overseas reached ¥1,109.0 billion (\$8,320 million) at fiscal year-end. The Company's outstanding balances of bonds, medium-term notes (MTNs), and payables under securitized lease receivables stood at ¥348.0 billion (\$2,611 million), ¥208.3 billion (\$1,563 million), and ¥333.4 billion (\$2,501 million), respectively. The share of the Company's total funding from capital markets on a

consolidated basis during fiscal 1998 was 43.3%, up from 34.3% in the previous fiscal year.

► With regard to indirect funding (borrowing), ORIX has not restricted itself to city banks but has worked to diversify its funding sources by initiating transactions with regional financial institutions, life insurance companies, casualty insurance companies, and foreign-based banks. While the capital adequacy requirements of Bank for International Settlement (BIS) regulations caused Japanese banks to become reluctant to extend new loans during the latter half of fiscal 1998, the Company's efforts to diversify its funding sources and methods enabled it to maintain stable sources of liquidity.

Percentage of Funding from Capital Markets

	(Millions of yen)	
	1998	1997
Total debt (A)	¥4,621,053	¥4,217,334
Funding from capital markets (B).....	1,999,695	1,447,954
Percentage of funding from capital markets (B/A).....	43.3%	34.3%

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

► Shareholders' equity grew 1.7% from the previous year-end, to ¥313,821 million (\$2,354 million). This increase principally reflected a 9.0% rise in retained earnings, to ¥274,144 million (\$2,057 million). The shareholders' equity ratio slipped to 5.63%. The per share value of net income was up 24.8%, to ¥366.40 (\$2.7), and the per share book value grew 2.0%, to ¥4,850.24 (\$36.4).

► With regard to other components of shareholders' equity, despite a continued depreciation of the yen—the yen-dollar exchange rate rose from ¥123.72=\$1 at March 31, 1997, to ¥133.29=\$1 at March 31, 1998—the depreciation of Asian currencies caused a decrease in the yen value of investments in Asia,

causing the value of downward cumulative translation adjustments (debit balance) to rise to ¥20,790 million (\$156 million). Reflecting the weakness of Japanese stock prices—the Nikkei average fell from ¥18,003.40 (\$135.1) at March 31, 1997, to ¥16,527.17 (\$124.0) at March 31, 1998—net unrealized gains on investment in securities dropped ¥9,931 million (\$74.5 million), to ¥2,711 million (\$20.3 million). Also, the Company used ¥1,475 million (\$11.1 million) to purchase its own shares in line with the introduction of a stock option plan during the fiscal year under review, and this figure was subtracted from shareholders' equity.

Shareholders' Equity, ROA, and ROE

(Millions of yen)

	1998	1997
Shareholders' equity ratio	5.63%	6.06%
Return on assets	0.45%	0.39%
Return on equity	7.63%	6.51%
Net income	¥ 23,731	¥ 19,044
Shareholders' equity	313,821	308,584
Total assets	5,574,309	5,089,975

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)

	1998	1997
Net income	¥ 366.40	¥ 293.57
Cash dividends	15.00	15.00
Book value.....	4,850.24	4,756.99

9. 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 risk 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—Based on the relevant employee's job rank, members of ORIX's marketing departments are authorized to approve new transactions within specified limits for the total balance of credit (including the new transaction). 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 ORIX's Credit Committee, which consists of corporate 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 and from 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 calculation report, 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 are prepared and used to analyze mismatches between existing floating-rate assets and liabilities. These charts show the contractual maturity, interest rates, and balances of floating-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.

► Aiming to further increase the sophistication of its interest rate risk management, ORIX is currently implementing a project that will, when completed, establish a system for rapidly obtaining a greater volume of quantitative data on 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 bank borrowing, 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.

Ten-Year Summary

ORIX Corporation and Subsidiaries

	Years Ended March 31		
	1998	1997	1996
Financial Position			
Investment in Direct Financing Leases	¥2,186,022	¥2,067,616	¥1,913,836
Installment Loans	1,794,825	1,700,697	1,628,916
Investment in Operating Leases	435,066	465,737	413,419
Investment in Securities	500,449	434,488	345,935
Other Operating Assets	65,838	58,193	55,161
Operating Assets	¥4,982,200	¥4,726,731	¥4,357,267
Allowance for Doubtful Receivables on Direct Financing Leases and Loan Losses	¥ (145,741)	¥ (117,567)	¥ (81,886)
Allowance/Investment in Direct Financing Leases and Installment Loans	3.7%	3.1%	2.3%
Short-Term Debt and Long-Term Debt	¥4,621,053	¥4,217,334	¥3,986,809
Shareholders' Equity	¥ 313,821	¥ 308,584	¥ 276,251
Total Assets	¥5,574,309	¥5,089,975	¥4,751,756
Revenues and Expenses			
Total Revenues	¥ 489,015	¥ 411,343	¥ 372,567
Net Interest Expense	¥ 138,748	¥ 128,592	¥ 137,134
Selling, General and Administrative Expenses	¥ 79,671	¥ 70,902	¥ 61,569
Income before Income Taxes	¥ 38,412	¥ 36,889	¥ 35,027
Net Income	¥ 23,731	¥ 19,044	¥ 18,003
Operations			
Direct Financing Leases:			
New receivables added	¥1,227,719	¥1,050,849	¥1,022,267
New equipment acquisitions	¥1,093,519	¥ 886,806	¥ 847,774
Installment Loans:			
New loans added	¥ 715,030	¥ 593,074	¥ 503,627
Operating Leases:			
New equipment acquisitions	¥ 98,566	¥ 92,932	¥ 95,802
Debt Securities and Funds in Trust:			
New securities added	¥ 217,225	¥ 135,324	¥ 114,199
Number of Employees	8,203	7,594	6,991

Notes: 1. The Company had provided a reserve for interest rate fluctuations of ¥5,000 million per year in fiscal 1990 and 1989 and ¥9,000 million per year in fiscal 1988 and 1987. In fiscal 1992, the Company reversed ¥27,000 million from this reserve.

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 Yamaichi Trust & Bank, Ltd.

3. Total revenues have been changed due to a reclassification of the consolidated statements of income.

							Millions of yen	
Years Ended March 31							Six Months Ended March 31	Year Ended September 30
1995	1994	1993	1992	1991	1990	1989	1988	
¥1,715,177	¥1,691,730	¥1,688,374	¥1,656,677	¥1,627,211	¥1,631,000	¥1,244,218	¥1,127,353	
1,619,397	1,687,475	1,799,569	1,988,033	2,373,204	1,993,946	1,266,803	1,127,902	
342,058	298,653	229,432	191,811	149,588	133,722	81,769	75,550	
278,807	258,133	260,187	342,521	355,990	349,989	277,236	242,522	
42,162	41,858	39,833	20,053	18,617	20,051	18,662	16,885	
¥3,997,601	¥3,977,849	¥4,017,395	¥4,199,095	¥4,524,610	¥4,128,708	¥2,888,688	¥2,590,212	
¥ (47,400)	¥ (48,806)	¥ (49,292)	¥ (51,068)	¥ (48,937)	¥ (44,413)	¥ (33,411)	¥ (30,958)	
1.4%	1.4%	1.4%	1.4%	1.2%	1.2%	1.3%	1.4%	
¥3,755,538	¥3,770,731	¥3,928,622	¥4,089,587	¥4,677,456	¥4,214,318	¥2,924,466	¥2,652,591	
¥ 238,050	¥ 230,081	¥ 218,839	¥ 213,544	¥ 200,190	¥ 189,652	¥ 143,818	¥ 136,188	
¥4,405,556	¥4,371,789	¥4,480,854	¥4,646,609	¥5,212,365	¥4,723,670	¥3,359,649	¥3,024,657	
¥ 348,093	¥ 350,960	¥ 392,903	¥ 421,097	¥ 436,398	¥ 311,003	¥ 117,503	¥ 220,044	
¥ 165,342	¥ 184,340	¥ 231,481	¥ 293,195	¥ 315,934	¥ 197,935	¥ 65,382	¥ 116,015	
¥ 58,561	¥ 59,639	¥ 63,209	¥ 63,429	¥ 54,109	¥ 44,089	¥ 20,045	¥ 42,311	
¥ 33,629	¥ 34,231	¥ 36,805	¥ 40,439	¥ 40,482	¥ 40,006	¥ 17,529	¥ 28,984	
¥ 17,072	¥ 18,031	¥ 18,931	¥ 20,381	¥ 20,109	¥ 19,307	¥ 8,206	¥ 13,608	
¥ 888,931	¥ 787,570	¥ 903,164	¥ 921,857	¥ 879,534	¥1,203,561	¥ 443,174	¥ 671,008	
¥ 731,632	¥ 652,816	¥ 718,514	¥ 713,808	¥ 670,669	¥ 959,719	¥ 359,781	¥ 544,553	
¥ 539,145	¥ 583,158	¥ 606,919	¥1,054,862	¥3,266,706	¥2,304,655	¥ 744,005	¥1,169,884	
¥ 97,895	¥ 121,726	¥ 106,621	¥ 85,436	¥ 54,751	¥ 78,197	¥ 20,135	¥ 25,210	
¥ 75,551	¥ 107,625	¥ 49,796	¥ 33,447	¥ 51,606	¥ 65,189	¥ 53,310	¥ 46,951	
6,723	6,731	6,924	6,842	6,233	5,711	4,205	4,010	

Consolidated Balance Sheets

ORIX Corporation and Subsidiaries March 31, 1998 and 1997

ASSETS	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Cash and Cash Equivalents	¥ 268,215	¥ 88,891	\$ 2,012,266
Time Deposits	10,535	10,934	79,038
Investment in Direct Financing Leases.....	2,186,022	2,067,616	16,400,495
Installment Loans.....	1,794,825	1,700,697	13,465,564
Allowance for Doubtful Receivables on Direct Financing Leases and Loan Losses	(145,741)	(117,567)	(1,093,413)
Investment in Operating Leases.....	435,066	465,737	3,264,056
Investment in Securities.....	500,449	434,488	3,754,588
Other Operating Assets	65,838	58,193	493,946
Investment in Affiliates	95,087	92,289	713,384
Other Receivables	67,558	55,690	506,850
Advances.....	101,282	90,080	759,862
Prepaid Expenses.....	21,068	15,731	158,061
Office Facilities, at Cost, Net of Accumulated Depreciation of ¥16,121 million (\$120,947 thousand) in 1998 and ¥14,334 million in 1997	37,142	27,034	278,656
Other Assets	136,963	100,162	1,027,556
	<u>¥5,574,309</u>	<u>¥5,089,975</u>	<u>\$41,820,909</u>

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Short-Term Debt	¥2,576,483	¥2,513,421	\$19,329,905
Trade Notes and Accounts Payable	194,154	171,537	1,456,628
Accrued Expenses	65,848	53,039	494,021
Policy Liabilities	221,455	149,023	1,661,452
Income Taxes:			
Current	4,116	6,403	30,880
Deferred	113,531	127,510	851,759
Deposits from Lessees and Others	40,331	56,545	302,581
Long-Term Debt.....	2,044,570	1,703,913	15,339,260
Total liabilities	5,260,488	4,781,391	39,466,486

Commitments and Contingent Liabilities

Shareholders' Equity:

Common stock, par value ¥50 per share:

 authorized—259,000,000 shares,

outstanding—64,870,299 shares.....	20,180	20,180	151,399
Additional paid-in capital	37,303	37,093	279,863
Legal reserve	1,750	1,640	13,129
Retained earnings.....	274,144	251,496	2,056,748
Net unrealized gains on investment in securities	2,711	12,642	20,339
Cumulative translation adjustments	(20,790)	(14,467)	(155,974)
Treasury stock, at cost, 168,213 shares in 1998	(1,477)	—	(11,081)
	313,821	308,584	2,354,423
	¥5,574,309	¥5,089,975	\$41,820,909

Consolidated Statements of Income

ORIX Corporation and Subsidiaries For the Years Ended March 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Revenues:				
Direct financing leases.....	¥149,369	¥136,661	¥133,981	\$1,120,632
Operating leases	97,668	91,971	70,011	732,748
Interest on loans and investment securities	95,033	89,487	88,213	712,979
Brokerage commissions and gains on investment securities	7,213	3,940	5,260	54,115
Life insurance premiums and related investment income.....	126,031	82,296	68,336	945,540
Other operating revenues.....	13,701	6,988	6,766	102,791
Total revenues	489,015	411,343	372,567	3,668,805
Expenses:				
Interest expense, net of interest income of ¥3,429 million (\$25,726 thousand) in 1998, ¥2,151 million in 1997 and ¥1,260 million in 1996.....	138,748	128,592	137,134	1,040,948
Depreciation—operating leases	59,222	55,014	38,577	444,309
Life insurance costs.....	115,876	73,886	61,626	869,353
Selling, general and administrative expenses.....	79,671	70,902	61,569	597,727
Provision for doubtful receivables and loan losses	58,186	57,748	46,536	436,537
Foreign currency transaction loss (gain), net.....	6,271	(1,361)	(1,249)	47,047
Total expenses.....	457,974	384,781	344,193	3,435,921
Operating Income.....	31,041	26,562	28,374	232,884
Equity in Net Income of Affiliates and Gains on Sales of Affiliates	7,371	10,327	6,653	55,300
Income before Income Taxes	38,412	36,889	35,027	288,184
Provision for Income Taxes.....	14,681	17,845	17,024	110,144
Net Income	¥ 23,731	¥ 19,044	¥ 18,003	\$ 178,040
Amounts per Share of Common Stock:				
Net income.....	¥366.40	¥293.57	¥277.53	\$2.75
Cash dividends.....	15.00	15.00	15.00	0.11

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, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Common stock.....	<u>¥ 20,180</u>	<u>¥ 20,180</u>	<u>¥ 20,180</u>	<u>\$ 151,399</u>
Additional paid-in capital:				
Beginning balance.....	¥ 37,093	¥ 37,093	¥ 37,093	\$ 278,288
Compensation cost of stock option granted.....	49	—	—	367
Value ascribed to warrants attached to 0.1% bonds sold.....	161	—	—	1,208
Ending balance.....	<u>¥ 37,303</u>	<u>¥ 37,093</u>	<u>¥ 37,093</u>	<u>\$ 279,863</u>
Legal reserve:				
Beginning balance.....	¥ 1,640	¥ 1,530	¥ 1,420	\$ 12,304
Transfer from retained earnings	110	110	110	825
Ending balance.....	<u>¥ 1,750</u>	<u>¥ 1,640</u>	<u>¥ 1,530</u>	<u>\$ 13,129</u>
Retained earnings:				
Beginning balance.....	¥251,496	¥233,535	¥216,615	\$1,886,833
Cash dividends.....	(973)	(973)	(973)	(7,300)
Transfer to legal reserve	(110)	(110)	(110)	(825)
Net income.....	23,731	19,044	18,003	178,040
Ending balance.....	<u>¥274,144</u>	<u>¥251,496</u>	<u>¥233,535</u>	<u>\$2,056,748</u>
Net unrealized gains on investment in securities:				
Beginning balance.....	¥ 12,642	¥ 13,855	¥ 6,648	\$ 94,846
Increase (decrease), net	(9,931)	(1,213)	7,207	(74,507)
Ending balance.....	<u>¥ 2,711</u>	<u>¥ 12,642</u>	<u>¥ 13,855</u>	<u>\$ 20,339</u>
Cumulative translation adjustments:				
Beginning balance.....	¥ (14,467)	¥ (29,942)	¥ (43,906)	\$ (108,538)
Increase (decrease), net	(6,323)	15,475	13,964	(47,436)
Ending balance.....	<u>¥ (20,790)</u>	<u>¥ (14,467)</u>	<u>¥ (29,942)</u>	<u>\$ (155,974)</u>
Treasury stock:				
Beginning balance.....	¥ —	¥ —	¥ —	\$ —
Purchase of treasury stock	(1,477)	—	—	(11,081)
Ending balance.....	<u>¥ (1,477)</u>	<u>¥ —</u>	<u>¥ —</u>	<u>\$ (11,081)</u>

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, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Cash Flows from Operating Activities:				
Net income	¥ 23,731	¥ 19,044	¥ 18,003	\$ 178,040
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation—operating leases	59,222	55,014	38,577	444,309
Provision for doubtful receivables and loan losses	58,186	57,748	46,536	436,537
Increase in policy liabilities	72,432	40,550	39,483	543,417
Deferred income taxes, net.....	1,664	4,875	5,278	12,484
Equity in net income of affiliates and gains on sales of affiliates....	(7,371)	(10,327)	(6,653)	(55,300)
Amortization of initial direct costs and loan origination costs.....	26,408	22,977	21,668	198,124
Increase (Decrease) in accrued expenses	12,461	5,011	(6,140)	93,488
Other, net	(173)	3,009	11,085	(1,298)
Net cash provided by operating activities	<u>246,560</u>	<u>197,901</u>	<u>167,837</u>	<u>1,849,801</u>
Cash Flows from Investing Activities:				
Purchases of lease equipment, including advance payments.....	(1,221,978)	(1,020,093)	(937,029)	(9,167,815)
Principal payments received under direct financing leases.....	859,795	829,657	693,562	6,450,559
Net proceeds from securitization of lease receivables	44,127	—	—	331,060
Installment loans made to customers	(696,031)	(593,074)	(503,627)	(5,221,930)
Principal collected on installment loans.....	614,779	548,110	518,135	4,612,342
Proceeds from sales of operating lease assets.....	60,032	29,722	19,368	450,386
Investment in and dividends received from affiliates, net	(11,676)	(1,721)	(4,310)	(87,598)
Proceeds from sales of affiliates	14,611	214	—	109,618
Decrease in time deposits, net	1,439	100	403	10,796
Purchases of available-for-sale securities	(198,693)	(145,957)	(124,435)	(1,490,682)
Proceeds from sales of available-for-sale securities	177,832	66,926	85,794	1,334,174
Maturities of available-for-sale securities.....	5,634	6,837	2,120	42,269
Maturities of held-to-maturity securities	—	5,860	4,261	—
Purchases of other securities.....	(92,078)	(6,158)	(4,963)	(690,810)
Proceeds from sales of other securities.....	67,754	7,831	2,572	508,320
Other, net	(8,788)	(9,517)	(11,913)	(65,931)
Net cash used in investing activities.....	<u>(383,241)</u>	<u>(281,263)</u>	<u>(260,062)</u>	<u>(2,875,242)</u>
Cash Flows from Financing Activities:				
(Repayment of) proceeds from short-term debt, net	(68,667)	(418,996)	351,072	(515,170)
Proceeds from commercial paper, net	90,189	556,254	23,377	676,637
Proceeds from long-term debt.....	620,973	277,074	433,830	4,658,812
Repayment of long-term debt.....	(321,043)	(364,271)	(725,863)	(2,408,605)
Purchases of treasury stock.....	(1,477)	—	—	(11,081)
Dividends paid.....	(973)	(973)	(973)	(7,300)
Other, net	210	—	—	1,575
Net cash provided by financing activities.....	<u>319,212</u>	<u>49,088</u>	<u>81,443</u>	<u>2,394,868</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(3,207)	2,224	2,181	(24,060)
Net Increase (Decrease) in Cash and Cash Equivalents	179,324	(32,050)	(8,601)	1,345,367
Cash and Cash Equivalents at Beginning of Year.....	88,891	120,941	129,542	666,899
Cash and Cash Equivalents at End of Year.....	<u>¥ 268,215</u>	<u>¥ 88,891</u>	<u>¥ 120,941</u>	<u>\$ 2,012,266</u>

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

Notes to Consolidated Financial Statements

ORIX Corporation and Subsidiaries

1. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

In preparing the accompanying consolidated financial statements, ORIX Corporation (the Company) and its subsidiaries have complied with accounting principles generally accepted in the United States 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 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. Until fiscal 1995, a Brazilian affiliate was carried at cost because of hyperinflation. Considering the improved economic conditions in Brazil, where hyperinflation has been mitigated, the Company valued the affiliate using the equity method of accounting beginning in fiscal 1996. The cumulative effect on retained earnings as of the beginning of fiscal 1996 was accounted for as income in fiscal 1996 because it was not significant.

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 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.

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 terms of the loan as an adjustment of the related loan's yield.

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 the accompanying consolidated statements of income.

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—Brokerage commissions 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 loan losses

The allowance for doubtful receivables on direct financing leases and 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.

Effective April 1, 1995, the Company and its subsidiaries adopted FASB Statement No.114 ("Accounting by Creditors for Impairment of a Loan") and FASB Statement No.118 ("Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures"). FASB Statement No.114 requires that certain impaired loans 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 may be 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 (e.g., individual housing loans), and lease receivables are exempt from the provision of FASB Statement No. 114. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance. These methods of accounting for impaired loans are consistent with the methods used by the Company and its subsidiaries.

(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 with unrealized gains and losses recorded in a separate component of shareholders' equity, net of applicable income taxes. Held-to-maturity securities are recorded at amortized cost. Unrealized losses that are other than temporary are charged to income. Effective December 1, 1995, held-to-maturity securities were partially reclassified to available-for-sale securities. Previously, these securities were carried at amortized cost. The decision to reclassify was made in conjunction with FASB issuance of an implementation guide that allowed a one-time window period to reassess and reclassify investments in securities. The Company took the opportunity under this one-time reassessment to reclassify ¥10,999 million from held-to-maturity to available-for-sale securities. The reclassified securities were revalued at fair value, which resulted in a ¥134 million unrealized loss, net of income taxes, being recorded in the net unrealized gains on investment in securities in shareholders' equity at March 31, 1996.

(h) Derivative financial instruments

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 have entered into various foreign exchange forward contracts, interest rate swaps, currency swaps and interest rate caps, floors and collars as a normal part of their risk management processes. Derivative financial instruments used for risk management are accounted for on an accrual basis. Income and expenses from swaps and other derivatives contracts used to manage interest rate exposures are included in interest on loans and investment securities and interest expense, net of interest income applicable to the related assets or liabilities.

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, but they do not expect any counterparties will fail to meet their obligations given the high credit ratings of the 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 carry-forwards of certain subsidiaries and affiliates, which the Company believes are realizable.

(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 rates of assumed investment yields are principally 4.4%, 5.0% and 5.4% for fiscal 1998, 1997 and 1996, respectively.

(k) Capitalization of interest costs

The Company and certain subsidiaries capitalized interest costs of ¥1,041 million (\$7,810 thousand), ¥602 million and ¥425 million in fiscal 1998, 1997 and 1996, 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 required to be 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.

(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) Office facilities

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

(o) 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.

(p) Advertising

The costs of advertising are reported as incurred.

(q) 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 ¥133.29 to U.S.\$1, the exchange rate at March 31, 1998.

(r) Reclassifications

Certain amounts in the 1997 and 1996 consolidated financial statements have been reclassified to conform with the 1998 presentation.

2. ACQUISITIONS

In June 1997, the Company purchased contract receivables of ¥288 billion (\$2,161 million) from Crown Leasing Corporation, which is in bankruptcy, consisting of direct financing leases of ¥257 billion (\$1,928 million) and loan contracts of ¥31 billion (\$233 million). The final purchase price was ¥254 billion (\$1,906 million), 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. 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. with approximately ¥68 billion (\$510 million) in assets. This acquisition was accounted for under the purchase method, and a cash payment of ¥11 billion (\$83 million), including a ¥2.5 billion (\$19 million) payment into an escrow account, was made on the same date. The purchase price is subject to adjustment based on final net assets determination, and the adjustment will be made through the escrow account. The balance sheet of Yamaichi Trust & Bank, Ltd. as of March 31, 1998 was included in the consolidated financial statements, assuming the acquisition occurred at March 31, 1998. The excess of the net assets acquired over the purchase price, which is expected to exceed approximately ¥4.5 billion (\$34 million), will be amortized over a period not exceeding 25 years.

3. CASH FLOW INFORMATION

Cash payments for interest and income taxes during fiscal 1998, 1997 and 1996 were as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Interest	¥135,563	¥126,669	¥142,962	\$1,017,053
Income taxes	15,358	12,702	12,472	115,222

4. INVESTMENT IN DIRECT FINANCING LEASES

Investment in direct financing leases at March 31, 1998 and 1997 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Minimum lease payments receivable	¥2,353,294	¥2,229,528	\$17,655,443
Estimated residual value	59,119	76,578	443,537
Initial direct costs	28,294	23,886	212,274
Unearned lease income	(254,685)	(262,376)	(1,910,759)
	¥2,186,022	¥2,067,616	\$16,400,495

Minimum lease payments receivable (including guaranteed residual values) are due in periodic installments through 2017. At March 31, 1998, 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
1999	¥ 847,823	\$ 6,360,740
2000	612,779	4,597,337
2001	430,486	3,229,695
2002	251,763	1,888,836
2003	114,959	862,473
Thereafter	95,484	716,362
Total	¥2,353,294	\$17,655,443

In June 1994 and September 1993, a subsidiary securitized ¥29,284 million and ¥29,247 million principal balance of its receivables. As of March 31, 1997, the securitized receivables had an unpaid principal balance outstanding of ¥3,515 million, which is excluded from the consolidated financial statements. In connection with this transaction, as of March 31, 1997, ¥1,672 million of cash collateral was required and is included in other receivables in the consolidated balance sheets. In June 1997, the subsidiary purchased all of the remaining securitized receivables.

In July 1997, the subsidiary entered into a revolving securitization arrangement whereby the subsidiary securitizes selected contracts on a monthly basis. During fiscal 1998, the subsidiary securitized ¥50,656 million (\$380,044 thousand) principal balance of its receivables. As of March 31, 1998, the securitized receivables had an unpaid principal balance outstanding of ¥44,042 million (\$330,422 thousand), which is excluded from the consolidated financial statements. In connection with this transaction, as of March 31, 1998, ¥2,569 million (\$19,274 thousand) of cash collateral was required and is included in other receivables in the consolidated balance sheets.

Also, as underlying assets for payables under securitized lease receivables of ¥305,520 million (\$2,292,145 thousand) and ¥954 million included in long-term debt, minimum lease payments receivable of ¥337,923 million (\$2,535,246 thousand) and ¥970 million are included in the consolidated balance sheets as of March 31, 1998 and 1997, respectively.

5. INVESTMENT IN OPERATING LEASES

Investment in operating leases at March 31, 1998 and 1997 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Transportation equipment.....	¥263,146	¥257,699	\$1,974,237
Measuring equipment and personal computers	103,207	92,745	774,304
Real estate and other.....	198,327	222,027	1,487,936
	564,680	572,471	4,236,477
Accumulated depreciation	(141,251)	(121,343)	(1,059,727)
Net	423,429	451,128	3,176,750
Rental receivables	11,637	14,609	87,306
	¥435,066	¥465,737	\$3,264,056

The operating lease contracts include non-cancelable lease terms ranging from one month to 11 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
1999	¥ 53,891	\$404,314
2000	27,398	205,552
2001	19,659	147,490
2002	15,521	116,445
2003	13,270	99,557
Thereafter	1,215	9,116
Total	¥130,954	\$982,474

6. INSTALLMENT LOANS

The composition of installment loans by domicile and type of borrowers at March 31, 1998 and 1997 is as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Domestic borrowers:			
Consumers—			
Housing loans	¥ 426,559	¥ 435,388	\$ 3,200,233
Card loans	98,187	78,438	736,642
Other	55,811	67,902	418,719
	580,557	581,728	4,355,594
Commercial—			
Real estate related companies	213,911	193,578	1,604,854
Commercial and industrial companies	607,952	558,232	4,561,122
	821,863	751,810	6,165,976
	1,402,420	1,333,538	10,521,570
Foreign commercial, industrial and other borrowers.....	377,761	351,053	2,834,128
Loan origination costs, net.....	14,644	16,106	109,866
	¥1,794,825	¥1,700,697	\$13,465,564

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

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

Changes in the allowance for doubtful receivables on direct financing leases and loan losses for fiscal 1998, 1997 and 1996 are as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Beginning balance.....	¥117,567	¥ 81,886	¥47,400	\$ 882,039
Provisions charged to income.....	58,186	57,748	46,536	436,537
Charge-offs.....	(32,091)	(25,991)	(14,560)	(240,761)
Other*.....	2,079	3,924	2,510	15,598
Ending balance.....	¥145,741	¥117,567	¥81,886	\$1,093,413

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

The recorded investments in loans considered impaired were ¥182,976 million (\$1,372,766 thousand) and ¥179,171 million, ¥153,529 million (\$1,151,842 thousand) and ¥159,868 million, which required the establishment of a valuation allowance, as of March 31, 1998 and 1997, respectively. The Company and its subsidiaries recorded a valuation allowance of ¥104,921 million (\$787,163 thousand) and ¥92,848 million, calculated under FASB Statement No. 114 as of March 31, 1998 and 1997, respectively. This valuation allowance is included in the allowance for doubtful receivables on direct financing leases and loan losses in the accompanying consolidated balance sheets.

The average recorded investments in impaired loans for fiscal 1998, 1997 and 1996 were ¥181,074 million (\$1,358,497 thousand), ¥179,172 million and ¥183,187 million, respectively.

The Company and its subsidiaries recognized interest income on impaired loans of ¥1,551 million (\$11,636 thousand), ¥1,524 million and ¥806 million for fiscal 1998, 1997 and 1996, 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 (o). As a result, during fiscal 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 ¥8,752 million (\$65,661 thousand) and ¥8,021 million were charged to income as provision for doubtful receivables and loan losses in the consolidated statements of income for fiscal 1998 and 1997, respectively. In the table above, these amounts are included in both provisions charged to income and charge-offs.

8. INVESTMENT IN SECURITIES

Investment in securities at March 31, 1998 and 1997 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Trading securities.....	¥ 46	¥ 82	\$ 345
Available-for-sale securities.....	451,074	409,722	3,384,155
Held-to-maturity securities.....	3,127	3,223	23,460
Other securities.....	46,202	21,461	346,628
	¥500,449	¥434,488	\$3,754,588

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 15). For fiscal 1998, 1997 and 1996, net unrealized holding gains or losses on trading securities are losses of ¥5 million (\$38 thousand), losses of ¥18 million, and gains of ¥5 million, respectively.

During fiscal 1998, the Company and its subsidiaries sold available-for-sale securities for aggregate proceeds of ¥177,832 million (\$1,334,174 thousand), resulting in gross realized gains of ¥9,951 million (\$74,657 thousand) and gross realized losses of ¥4,176 million (\$31,330 thousand). During fiscal 1997 and 1996, the Company and its subsidiaries sold available-for-sale securities for aggregate proceeds of ¥66,926 million and ¥85,794 million, resulting in gross realized gains of ¥1,878 million and ¥1,398 million, and gross realized losses of ¥972 million and ¥170 million, respectively. The cost of the securities sold was based on the average cost of all the shares of each such security held at the time of the sale.

At the beginning of fiscal 1997, net unrealized holding gains on available-for-sale securities, net of applicable income taxes, amounted to ¥13,855 million. As of March 31, 1997, net unrealized holding gains, net of applicable income taxes, decreased by ¥1,213 million to ¥12,642 million. As of March 31, 1998, net unrealized holding gains, net of applicable income taxes, decreased by ¥9,931 million (\$74,507 thousand) to ¥2,711 million (\$20,339 thousand). The net unrealized gains, net of income taxes, are presented as a separate component of shareholders' equity in the consolidated balance sheets.

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, 1998 and 1997 are as follows:

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
	<u>¥446,727</u>	<u>¥25,344</u>	<u>¥(20,997)</u>	<u>¥451,074</u>
Held-to-maturity:				
Corporate debt securities.....	¥ 3,127	¥ —	¥ (29)	¥ 3,098
	<u>¥ 3,127</u>	<u>¥ —</u>	<u>¥ (29)</u>	<u>¥ 3,098</u>

	Thousands of U.S. dollars			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Japanese and foreign government bond securities.....	\$ 43,230	\$ 900	\$ (773)	\$ 43,357
Japanese prefectural and foreign municipal bond securities.....	143,222	7,240	(121)	150,341
Corporate debt securities.....	2,519,086	55,841	(52,877)	2,522,050
Mortgage-backed and other asset-backed securities.....	182,654	37	(225)	182,466
Funds in trust.....	36,514	—	(4,479)	32,035
Equity securities.....	426,836	126,124	(99,054)	453,906
	<u>\$3,351,542</u>	<u>\$190,142</u>	<u>\$(157,529)</u>	<u>\$3,384,155</u>
Held-to-maturity:				
Corporate debt securities.....	\$ 23,460	\$ —	\$ (217)	\$ 23,243
	<u>\$ 23,460</u>	<u>\$ —</u>	<u>\$ (217)</u>	<u>\$ 23,243</u>

March 31, 1997

	Millions of yen			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Japanese and foreign government bond securities.....	¥ 13,599	¥ 246	¥ (33)	¥ 13,812
Japanese prefectural and foreign municipal bond securities.....	30,830	1,693	(5)	32,518
Corporate debt securities.....	264,829	6,651	(952)	270,528
Mortgage-backed and other asset-backed securities.....	19,248	1,227	(132)	20,343
Funds in trust.....	6,476	—	(685)	5,791
Equity securities.....	49,963	24,240	(7,473)	66,730
	<u>¥384,945</u>	<u>¥34,057</u>	<u>¥(9,280)</u>	<u>¥409,722</u>
Held-to-maturity:				
Corporate debt securities.....	¥ 3,223	¥ —	¥ (24)	¥ 3,199
	<u>¥ 3,223</u>	<u>¥ —</u>	<u>¥ (24)</u>	<u>¥ 3,199</u>

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, 1998:

	Millions of yen		Thousands of U.S. dollars	
	Amortized cost	Fair value	Amortized cost	Fair value
Available-for-sale:				
Due within one year	¥ 59,141	¥ 62,708	\$ 443,702	\$ 470,463
Due after one to five years	114,387	109,716	858,181	823,137
Due after five to ten years	162,188	165,652	1,216,805	1,242,794
Due after ten years	49,251	48,227	369,504	361,820
	<u>¥384,967</u>	<u>¥386,303</u>	<u>\$2,888,192</u>	<u>\$2,898,214</u>
Held-to-maturity:				
Due within one year	¥ —	¥ —	\$ —	\$ —
Due after one to five years	3,127	3,098	23,460	23,243
	<u>¥ 3,127</u>	<u>¥ 3,098</u>	<u>\$ 23,460</u>	<u>\$ 23,243</u>

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.

9. INVESTMENT IN AFFILIATES

Investment in affiliates at March 31, 1998 and 1997 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Common stock, at equity value	¥71,821	¥78,559	\$538,832
Advances	23,266	13,730	174,552
	<u>¥95,087</u>	<u>¥92,289</u>	<u>\$713,384</u>

Certain overseas affiliates are listed on stock exchanges. The aggregate investment in and quoted market value of those affiliates amounted to ¥5,605 million (\$42,051 thousand) and ¥1,867 million (\$14,007 thousand), respectively, as of March 31, 1998.

During fiscal 1998, the Company sold all the shares of its investments in certain overseas and domestic affiliates accounted for by the equity method. The Company recorded gains on the sales of such shares of ¥6,825 million (\$51,204 thousand), which is included in equity in net income of affiliates and gains on sales of affiliates.

Combined and condensed financial information with respect to the two major affiliates accounted for by the equity method is as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Operations:				
Total revenues	¥ 86,916	¥ 116,889	¥ 69,418	\$ 652,082
Income (loss) before income taxes	(1,967)	18,722	8,602	(14,757)
Net income	1,173	17,742	6,687	8,800
Financial position:				
Total assets	764,087	1,005,193	735,776	5,732,516
Total liabilities	676,109	909,421	662,779	5,072,466
Shareholders' equity	87,978	95,772	72,997	660,050

The loss before income taxes in fiscal 1998 shown in the above table was attributed primarily to the significant business decline of an affiliate in Korea reflecting the recent economic and currency crisis in Asia.

The Company had no significant transactions with these two 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, 1998 and 1997 are as follows:

March 31, 1998

	Millions of yen	Thousands of U.S. dollars	Weighted average rate
Short-term debt in Japan, mainly from banks	¥1,098,793	\$ 8,243,627	1.7%
Short-term debt outside Japan, mainly from banks	368,660	2,765,849	6.6%
Commercial paper in Japan	841,974	6,316,858	1.4%
Commercial paper outside Japan	267,056	2,003,571	6.2%
	<u>¥2,576,483</u>	<u>\$19,329,905</u>	<u>2.8%</u>

March 31, 1997

	Millions of yen	Weighted average rate
Short-term debt in Japan, mainly from banks.....	¥1,094,725	1.3%
Short-term debt outside Japan, mainly from banks.....	416,227	5.8%
Commercial paper in Japan	799,417	0.6%
Commercial paper outside Japan	203,052	5.7%
	<u>¥2,513,421</u>	2.2%

The Company and certain subsidiaries customarily have time deposits with each lending bank; however, there are no compensating balance agreements with any banks. The weighted average interest rate on these deposits was 7.4% as of March 31, 1998.

Long-term debt at March 31, 1998 and 1997 consists of the following:

March 31, 1998

	Millions of yen	Thousands of U.S. dollars
Japanese banks:		
1.8% to 8.9%, due 1999–2005	¥ 334,590	\$ 2,510,241
Floating rate principally based on LIBOR plus, due 1999–2009	158,398	1,188,371
Government-sponsored agencies in Japan:		
3.8% to 6.2%, due 1999–2007	17,737	133,071
Floating rate principally based on LIBOR plus, due 1999–2003	43,036	322,875
Foreign banks:		
5.8% to 10.2%, due 1999–2004	7,316	54,888
Floating rate principally based on LIBOR plus, due 1999–2004	1,526	11,449
Insurance companies and others:		
1.6% to 8.5%, due 1999–2009	423,372	3,176,322
Floating rate principally based on LIBOR plus, due 1999–2008	193,769	1,453,740
Unsecured 1.7% to 5.0% bonds, due 1999–2013	345,000	2,588,341
Unsecured 0.1% bonds with warrants, due 2002	3,000	22,507
Unsecured notes under medium-term note program:		
1.0% to 7.4%, due 1999–2009	199,289	1,495,153
Zero Coupon, due 1999–2006	9,017	67,650
Payables under securitized lease receivables, floating rate based on LIBOR plus, due 2002	305,520	2,292,145
Unsecured debt under borrowed securities agreements, 6.1%, due 1999	3,000	22,507
	<u>¥2,044,570</u>	<u>\$15,339,260</u>

March 31, 1997

	Millions of yen
Japanese banks:	
2.0% to 8.4%, due 1998–2005	¥ 417,916
Floating rate principally based on LIBOR plus, due 1998–2009	216,998
Government-sponsored agencies in Japan:	
3.8% to 6.2%, due 1998–2007	20,830
Floating rate principally based on LIBOR plus, due 1998–2003	43,586
Foreign banks:	
6.6% to 10.8%, due 1998–2004	5,162
Floating rate principally based on LIBOR plus, due 1998–2004	1,679
Insurance companies and others:	
1.6% to 8.5%, due 1998–2009	415,914
Floating rate principally based on LIBOR plus, due 1998–2007	134,722
Unsecured 1.8% to 3.9% bonds, due 1999–2009	240,000
Unsecured notes under medium-term note program:	
0.8% to 7.6%, due 1998–2007	194,013
Zero Coupon, due 1999–2006	8,139
Payables under securitized lease receivables, 3.3% to 3.8%, due 1998	954
Unsecured debt under borrowed securities agreements, 6.0% to 6.1%, due 1998–1999	4,000
	<u>¥1,703,913</u>

The repayment schedule for the next five years and thereafter for long-term debt at March 31, 1998 is as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
1999	¥ 443,432	\$ 3,326,821
2000	501,320	3,761,122
2001	435,799	3,269,555
2002	254,206	1,907,165
2003	126,993	952,757
Thereafter	282,820	2,121,840
Total.....	<u>¥2,044,570</u>	<u>\$15,339,260</u>

A subsidiary enters into borrowed securities agreements with Japanese trust banks under which government bonds are borrowed to maturity. The bonds are sold immediately at market value and the proceeds are recorded as debt. The terms of the agreements require the subsidiary to return the borrowed securities or to repay the original principal amounts of the bonds with interest. The differences between the proceeds and the principal amounts payable are treated as debt premium or discount and are being amortized over the loan period as adjustments of interest expense.

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 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.

The short-term and long-term debt payable to certain lenders are secured by the following assets as of March 31, 1998:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥10,484	\$ 78,656
Minimum lease payments, loans and future rentals	53,768	403,391
Investment in securities	23,637	177,335
	<u>¥87,889</u>	<u>\$659,382</u>

In addition, under agreements with customers on brokerage business, customers' securities of ¥628 million (\$4,712 thousand) at market value are pledged as collateral for the short-term debt as of March 31, 1998.

Loan agreements relating to short-term and long-term debt from Japanese banks and certain insurance companies provide that minimum lease payments, receivables for retail contracts 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 Japanese banks and an insurance company as of March 31, 1998:

	Millions of yen	Thousands of U.S. dollars
Commercial paper	¥140,592	\$1,054,783
Government-sponsored agencies in Japan	9,849	73,892

11. INCOME TAXES

Income before income taxes and the provision for income taxes in fiscal 1998, 1997 and 1996 are as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Income before income taxes:				
Domestic	¥28,186	¥20,157	¥25,173	\$211,464
Foreign	10,226	16,732	9,854	76,720
	<u>¥38,412</u>	<u>¥36,889</u>	<u>¥35,027</u>	<u>\$288,184</u>
Provision for income taxes:				
Current—				
Domestic	¥ 4,964	¥ 6,968	¥ 7,644	\$ 37,242
Foreign	8,053	6,002	4,102	60,418
	<u>13,017</u>	<u>12,970</u>	<u>11,746</u>	<u>97,660</u>
Deferred—				
Domestic	5,072	4,646	5,042	38,052
Foreign	(3,408)	229	236	(25,568)
	<u>1,664</u>	<u>4,875</u>	<u>5,278</u>	<u>12,484</u>
Provision for income taxes	<u>¥14,681</u>	<u>¥17,845</u>	<u>¥17,024</u>	<u>\$110,144</u>

The normal income tax rate in Japan is approximately 51%. The effective income tax rate is different from the normal income tax rate primarily because of tax reductions arising from tax credits on foreign source income, 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. Such a change occurred as of March 31, 1998, with the enactment of 1998 tax reform, which decreased the normal income tax rate to approximately 48%, effective from April 1, 1998.

Accordingly, the provision for income taxes for fiscal 1998 includes ¥6,315 million (\$47,378 thousand) of benefit for the effect of the tax decrease on the deferred tax balances as of March 31, 1998.

Reconciliations of the differences between the normal income tax rate and consolidated provisions for income taxes in fiscal 1998, 1997 and 1996 are as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Income before income taxes	¥38,412	¥36,889	¥35,027	\$288,184
Tax provision computed at normal rate	¥19,744	¥18,961	¥18,004	\$148,128
Increases (reductions) in taxes due to:				
Application of the equity method	(1,170)	(3,300)	(2,286)	(8,778)
Permanent non-deductible expenses	1,050	1,227	1,105	7,878
Effect of a change in tax rates	(6,315)	—	—	(47,378)
Amortization of goodwill	663	420	409	4,974
Other, net	709	537	(208)	5,320
Provision for income taxes	¥14,681	¥17,845	¥17,024	\$110,144

The tax effects of temporary differences giving rise to the deferred income tax assets and liabilities at March 31, 1998 and 1997 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Assets:			
Net operating loss carryforwards	¥ 16,761	¥ 12,415	\$ 125,748
Allowance for doubtful receivables on direct financing leases and loan losses	38,305	20,544	287,381
Installment loans	948	1,149	7,112
Accrued expenses	2,953	3,006	22,155
Other	3,469	2,698	26,027
	¥ 62,436	¥ 39,812	\$ 468,423
Liabilities:			
Investment in direct financing leases	¥127,350	¥120,290	\$ 955,436
Investment in operating leases	17,696	9,645	132,763
Investment in securities	7,298	15,576	54,753
Undistributed earnings	16,732	16,947	125,531
Other	6,891	4,864	51,699
	¥175,967	¥167,322	\$1,320,182
	¥113,531	¥127,510	\$ 851,759

Certain subsidiaries and affiliates have recognized tax assets from net operating loss carryforwards totaling ¥38,438 million (\$288,379 thousand) and ¥24,661 million as of March 31, 1998 and 1997, respectively, which expire as follows:

Year ending March 31	Millions of yen		Thousands of U.S. dollars
	Net operating loss carryforwards		Net operating loss carryforwards
	1998	1997	1998
1999	¥ 609	¥ 1,313	\$ 4,569
2000	886	1,514	6,647
2001	1,132	2,127	8,493
2002	1,996	1,377	14,975
2003	15,731	2,375	118,021
Thereafter	18,084	15,955	135,674
Total	<u>¥38,438</u>	<u>¥24,661</u>	<u>\$288,379</u>

Undistributed earnings of certain subsidiaries and affiliates for which deferred income taxes were not provided amounted to ¥36,403 million (\$273,111 thousand) and ¥35,476 million as of March 31, 1998 and 1997, respectively. Since the management decided that such undistributed earnings are permanently reinvested, no provision for income taxes has been provided.

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 (\$29,214 thousand) 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.

The funded status of the defined benefit pension plans as of March 31, 1998 and 1997 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Actuarial present value of benefit obligations:			
Vested benefit obligation	¥20,428	¥12,875	\$153,260
Accumulated benefit obligation	¥20,898	¥12,947	\$156,786
Projected benefit obligation	¥28,070	¥16,348	\$210,593
Plan assets at fair value	26,122	19,014	195,979
Projected benefit obligation less than (in excess of) plan assets	(1,948)	2,666	(14,614)
Unrecognized net loss	6,333	3,483	47,513
Unrecognized net transition obligation (assets)	630	(722)	4,727
Adjustment to recognize minimum liability	(438)	(228)	(3,287)
Prepaid pension cost included in prepaid expenses	¥ 4,577	¥ 5,199	\$ 34,339

Net pension cost of the plans for fiscal 1998, 1997 and 1996 consists of the following:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Service cost—benefits earned during the year	¥1,784	¥1,440	¥1,284	\$13,384
Interest cost on projected benefit obligation	1,127	846	709	8,455
Actual return on plan assets	(1,298)	(121)	(1,339)	(9,738)
Net amortization and deferral	495	(873)	554	3,714
Net periodic pension cost	<u>¥2,108</u>	<u>¥1,292</u>	<u>¥1,208</u>	<u>\$15,815</u>

Significant assumptions used to determine these amounts for fiscal 1998, 1997 and 1996 are as follows:

	1998	1997	1996
Discount rate	4.7%	5.5%	5.5%
Rate of increase in compensation levels.....	2.8%	3.1%	3.7%
Expected long-term rate of return on plan assets.....	4.9%	5.5%	5.5%

In addition, directors and corporate auditors of the Company and certain subsidiaries 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 ¥3,019 million (\$22,650 thousand), ¥2,431 million and ¥2,489 million in fiscal 1998, 1997 and 1996, respectively.

13. STOCK-BASED COMPENSATION

In October 1997, the Company introduced a stock option plan for all directors and key employees after the approval by the shareholders in June 1997. Under the plan, the right is granted to purchase the treasury shares of the Company at a purchase price which 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 26, 1998, for the acquisition by the Company of 146,000 shares of its common stock for a total consideration not exceeding ¥1,900 million (\$14,255 thousand) for an additional grant of stock options during fiscal 1999.

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 compensation cost of ¥49 million (\$367 thousand) in fiscal 1998. 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 would have been ¥23,563 million (\$176,780 thousand) and ¥363.80 (\$2.73), respectively.

The following table summarizes information about stock option activity for fiscal 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	\$69.01			
Exercised	—	—	—			
Forfeited or Expired.....	—	—	—			
Outstanding at March 31, 1998	168,000	9,198	69.01	4.5 Years	¥9,198	¥9,198
[Exercisable at March 31, 1998].....	168,000	9,198	69.01			

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

	1998
Grant-date fair value	¥2,356 (\$17.68)
Expected life	5 Years
Risk-free rate	1.210%
Expected volatility	24.56%
Expected dividend yield	0.158%

The Company also introduced a warrant plan during fiscal 1998. Under the plan, the Company granted 259,258 warrants (¥161 million) (\$1,208 thousand) 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 by purchasing warrants attached to bonds with warrants issued by the Company during fiscal 1998. Grant-date fair value of the warrants and exercise price were ¥620 (\$4.65) and ¥9,528 (\$71.48), respectively.

14. 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 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 26, 1998, the declaration of a cash dividend totaling ¥971 million (\$7,285 thousand), which will be paid in that month to the shareholders of record as of March 31, 1998, covering fiscal 1998, and the related appropriation of retained earnings to legal reserve of ¥110 million (\$825 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 ¥69,230 million (\$519,394 thousand) as of March 31, 1998. However, there is a restriction on the payment of dividends relating to the treasury stock acquired for the stock option plan, amounting to ¥1,475 million (\$11,066 thousand) as of March 31, 1998.

15. BROKERAGE COMMISSIONS AND GAINS ON INVESTMENT SECURITIES

Brokerage commissions and gains on investment securities in fiscal 1998, 1997 and 1996 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Brokerage commissions	¥1,400	¥1,448	¥1,468	\$10,503
Gains on investment securities, net.....	5,813	2,492	3,792	43,612
	¥7,213	¥3,940	¥5,260	\$54,115

Trading activities—Gains on investment securities, net, include net trading revenue on trading securities amounting to ¥574 million (\$4,306 thousand), ¥223 million and ¥393 million, and derivative trading instruments amounting to ¥303 million (\$2,273 thousand), ¥964 million and ¥94 million for fiscal 1998, 1997 and 1996, respectively.

16. LIFE INSURANCE OPERATIONS

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 1998, 1997 and 1996 amounted to ¥7,020 million (\$52,667 thousand), ¥5,795 million and ¥4,739 million, respectively.

Revenues from the life insurance operations were previously included in "Other operating revenues" in the consolidated statements of income on a net basis with supplemental presentation of the gross amounts in a footnote. In fiscal 1998, revenues and expenses have been presented on a gross basis in the accompanying consolidated statements of income. Prior year amounts have been reclassified to conform to this presentation.

17. OTHER OPERATING REVENUES

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

18. 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 1998, 1997 and 1996.

19. 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, 1998 and 1997, as indicated in the following table:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
	Notional amount	Notional amount	Notional amount
Interest rate swap agreements	¥1,056,070	¥1,141,736	\$7,923,100
Options, caps, floors and collars held	82,461	118,612	618,659
Options, caps, floors and collars written	1,982	25,989	14,870
Forward rate agreements.....	—	1,041	—

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 amounts of those loan commitments as of March 31, 1998 and 1997 are set out in the following table:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
	Contract amount	Contract amount	Contract amount
Loan commitments.....	¥14,227	¥8,418	\$106,737

(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, 1998 and 1997, as indicated in the following table:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
	Notional amount	Notional amount	Notional amount
Foreign exchange forward contracts.....	¥ 67,560	¥ 40,069	\$ 506,865
Foreign currency swap agreements	196,756	169,836	1,476,150

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 risk of change in foreign currency exchange rates associated with certain assets and obligations denominated in foreign currencies.

20. 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, 1998 and 1997, 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 ¥3,520 billion (\$26,409 million), or 73%, at March 31, 1998 and approximately ¥3,150 billion, or 72%, at March 31, 1997 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. Most of the lease payments are made at fixed rates.

21. 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.

March 31, 1998

	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.....	¥ 268,215	¥ 268,215	\$ 2,012,266	\$ 2,012,266
Time deposits.....	10,535	10,535	79,038	79,038
Installment loans.....	1,794,825	1,816,854	13,465,564	13,630,835
Allowance for doubtful receivables on loan losses.....	(135,231)	(135,231)	(1,014,562)	(1,014,562)
Investment in securities:				
Practicable to estimate fair value.....	461,024	460,995	3,458,804	3,458,587
Not practicable to estimate fair value.....	39,379	39,379	295,439	295,439
Liabilities:				
Short-term debt.....	2,576,483	2,576,483	19,329,905	19,329,905
Long-term debt.....	2,044,570	2,063,314	15,339,260	15,479,886
Foreign exchange forward contracts:				
Assets.....	353	353	2,648	2,648
Liabilities.....	2,167	2,167	16,258	16,258
Foreign currency swap agreements:				
Assets.....	—	483	—	3,624
Liabilities.....	—	23,429	—	175,775
Interest rate swap agreements:				
Assets.....	—	13,278	—	99,617
Liabilities.....	—	30,690	—	230,250
Options and other derivatives:				
Assets.....	241	30	1,808	225
Liabilities.....	30	30	225	225

March 31, 1997

	Millions of yen	
	Carrying amount	Estimated fair value
Non-trading instruments		
Assets:		
Cash and cash equivalents.....	¥ 88,891	¥ 88,891
Time deposits.....	10,934	10,934
Installment loans.....	1,700,697	1,756,531
Allowance for doubtful receivables on loan losses.....	(107,787)	(107,787)
Investment in securities:		
Practicable to estimate fair value.....	417,435	417,411
Not practicable to estimate fair value.....	16,971	16,971
Liabilities:		
Short-term debt.....	2,513,421	2,513,421
Long-term debt.....	1,703,913	1,731,973
Foreign exchange forward contracts:		
Assets.....	72	72
Liabilities.....	260	260
Foreign currency swap agreements:		
Assets.....	—	1,818
Liabilities.....	—	16,702
Interest rate swap agreements:		
Assets.....	—	15,043
Liabilities.....	—	27,341
Options and other derivatives:		
Assets.....	571	328
Liabilities.....	105	111

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.

22. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments, guarantees and contingencies—As of March 31, 1998, the Company and its subsidiaries had commitments for the purchase of equipment to be leased, having a cost of approximately ¥26,748 million (\$200,675 thousand).

The Company and its subsidiaries lease office space under cancelable operating lease agreements and made rental payments totaling ¥6,446 million (\$48,361 thousand), ¥5,783 million and ¥5,854 million in fiscal 1998, 1997 and 1996, respectively.

As of March 31, 1998, the Company and its subsidiaries were contingently liable as guarantor for borrowings of ¥42,532 million (\$319,094 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.

23. SEGMENT INFORMATION

The Company's industry segments consist of direct financing leases, installment loans and investment securities, operating leases, securities brokerage and trading, life insurance operations and other operations.

Geographically, the Company and its subsidiaries conduct business involving leases, installment loans and life insurance in Japan with the exception of those principally relating to aircraft, vessels and plant and industrial machinery, which are leased or loaned outside Japan.

Corporate assets represent principally cash, time deposits and other assets.

No single customer accounted for 10% or more of total revenues in fiscal 1998, 1997 and 1996.

The Company and its subsidiaries' segment information for fiscal 1998, 1997 and 1996 is as follows:

Industry Segments: Year ended March 31, 1998

Segment	Millions of yen				
	Revenues	Income before income taxes	Identifiable assets	Depreciation and amortization	Capital expenditures
Direct financing leases	¥149,369	¥52,456	¥2,237,764	¥ —	¥ —
Installment loans and investment securities	95,033	(24,021)	1,903,062	—	—
Operating leases	97,668	(2,521)	495,922	59,222	101,343
Securities brokerage and trading	7,213	3,420	74,025	—	—
Life insurance operations	126,031	5,892	238,032	—	1,664
Other operations	13,701	3,001	116,804	743	4,731
Subtotal	489,015	38,227	5,065,609	59,965	107,738
Corporate	—	(7,186)	413,613	2,078	3,166
Total	489,015	31,041	5,479,222	62,043	110,904
Affiliates' operations	—	7,371	95,087	—	—
Consolidated	¥489,015	¥38,412	¥5,574,309	¥62,043	¥110,904

Segment	Thousands of U.S. dollars				
	Revenues	Income before income taxes	Identifiable assets	Depreciation and amortization	Capital expenditures
Direct financing leases	\$1,120,632	\$393,548	\$16,788,686	\$ —	\$ —
Installment loans and investment securities	712,979	(180,216)	14,277,605	—	—
Operating leases	732,748	(18,914)	3,720,624	444,309	760,320
Securities brokerage and trading	54,115	25,658	555,368	—	—
Life insurance operations	945,540	44,205	1,785,821	—	12,484
Other operations	102,791	22,515	876,315	5,575	35,494
Subtotal	3,668,805	286,796	38,004,419	449,884	808,298
Corporate	—	(53,912)	3,103,106	15,590	23,752
Total	3,668,805	232,884	41,107,525	465,474	832,050
Affiliates' operations	—	55,300	713,384	—	—
Consolidated	\$3,668,805	\$288,184	\$41,820,909	\$465,474	\$832,050

Year ended March 31, 1997

Segment	Millions of yen				
	Revenues	Income before income taxes	Identifiable assets	Depreciation and amortization	Capital expenditures
Direct financing leases	¥136,661	¥55,497	¥2,095,369	¥ —	¥ —
Installment loans and investment securities	89,487	(22,445)	1,804,079	—	—
Operating leases	91,971	(3,756)	530,980	55,014	104,916
Securities brokerage and trading	3,940	1,004	78,326	—	—
Life insurance operations	82,296	4,772	160,353	—	34
Other operations	6,988	(1,800)	96,097	656	3,049
Subtotal	411,343	33,272	4,765,204	55,670	107,999
Corporate	—	(6,710)	232,482	1,915	4,329
Total	411,343	26,562	4,997,686	57,585	112,328
Affiliates' operations	—	10,327	92,289	—	—
Consolidated	¥411,343	¥36,889	¥5,089,975	¥57,585	¥112,328

Year ended March 31, 1996

Segment	Millions of yen				
	Revenues	Income before income taxes	Identifiable assets	Depreciation and amortization	Capital expenditures
Direct financing leases	¥133,981	¥51,890	¥1,935,910	¥ —	¥ —
Installment loans and investment securities	88,213	(19,243)	1,730,343	—	—
Operating leases	70,011	(2,210)	468,797	38,577	102,898
Securities brokerage and trading	5,260	1,994	86,283	—	—
Life insurance operations	68,336	2,915	112,866	—	—
Other operations	6,766	1,753	89,952	343	4,732
Subtotal	372,567	37,099	4,424,151	38,920	107,630
Corporate	—	(8,725)	248,351	1,674	3,277
Total	372,567	28,374	4,672,502	40,594	110,907
Affiliates' operations	—	6,653	79,254	—	—
Consolidated	¥372,567	¥35,027	¥4,751,756	¥40,594	¥110,907

**Geographic Segments:
Year ended March 31, 1998**

Segment	Millions of yen			Thousands of U.S. dollars		
	Revenues	Income before income taxes	Identifiable assets	Revenues	Income before income taxes	Identifiable assets
Japan.....	¥346,955	¥25,890	¥3,802,425	\$2,603,008	\$194,238	\$28,527,459
The Americas.....	70,241	16,944	621,429	526,979	127,121	4,662,233
Asia and Oceania.....	52,645	(2,801)	419,013	394,966	(21,014)	3,143,619
Europe.....	19,174	(1,806)	222,742	143,852	(13,549)	1,671,108
Subtotal.....	489,015	38,227	5,065,609	3,668,805	286,796	38,004,419
Corporate.....	—	(7,186)	413,613	—	(53,912)	3,103,106
Total.....	489,015	31,041	5,479,222	3,668,805	232,884	41,107,525
Affiliates' operations.....	—	7,371	95,087	—	55,300	713,384
Consolidated.....	¥489,015	¥38,412	¥5,574,309	\$3,668,805	\$288,184	\$41,820,909

Year ended March 31, 1997

Segment	Millions of yen		
	Revenues	Income before income taxes	Identifiable assets
Japan.....	¥287,630	¥17,820	¥3,459,566
The Americas.....	55,406	10,575	600,630
Asia and Oceania.....	50,359	9,047	462,352
Europe.....	17,948	(4,170)	242,656
Subtotal.....	411,343	33,272	4,765,204
Corporate.....	—	(6,710)	232,482
Total.....	411,343	26,562	4,997,686
Affiliates' operations.....	—	10,327	92,289
Consolidated.....	¥411,343	¥36,889	¥5,089,975

Year ended March 31, 1996

Segment	Millions of yen		
	Revenues	Income before income taxes	Identifiable assets
Japan.....	¥281,865	¥29,698	¥3,379,405
The Americas.....	38,837	5,954	471,188
Asia and Oceania.....	36,220	5,598	354,726
Europe.....	15,645	(4,151)	218,832
Subtotal.....	372,567	37,099	4,424,151
Corporate.....	—	(8,725)	248,351
Total.....	372,567	28,374	4,672,502
Affiliates' operations.....	—	6,653	79,254
Consolidated.....	¥372,567	¥35,027	¥4,751,756

The economic crisis in Asia is characterized by reduced economic activity, low liquidity, highly volatile foreign currency exchange and interest rates, and unstable equity markets. As a result, there have been and will continue to be a significant number of business failures in Asia. The Company, either directly or through subsidiaries or affiliates, operates throughout Asia, and its operations have been and will continue to be affected by the economic slowdown and business failures.

As of March 31, 1998, the total assets in Asia other than Japan, which include the investment in affiliates accounted for by the equity method, totaled approximately 6% of consolidated total assets. Management believes that the allowance for doubtful receivables was sufficient to provide against potential credit losses based on the information available at March 31, 1998. However, because of the uncertainty of the present economic situation in Asia, it may be necessary to revise the estimates made at some time in the future.

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 subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1998, 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 generally accepted auditing standards. 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.

Accounting principles generally accepted in the United States of America require that financial statements include information concerning a company's operations in different industries, its foreign operations and its export sales (segment information). In our report of independent public accountants dated May 21, 1997, our opinion on the consolidated financial statements as of March 31, 1997 and 1996 was qualified as the Company had not presented such segment information as would be appropriate in its consolidated financial statements. The Company has appropriately disclosed such segment information as of March 31, 1997 and 1996 in the accompanying consolidated financial statements; therefore, our opinion qualification has been removed and our present opinion on the consolidated financial statements as of March 31, 1997 and 1996, as presented herein, is different from that expressed in our previous report.

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, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1998, 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 (q).



Tokyo, Japan
May 21, 1998

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 World Trade Center Building, 2-4-1, Hamamatsu-cho, Minato-ku, Tokyo 105-6135, Japan Tel: 03-3435-6641 Fax: 03-3435-6642 <i>Managing Director: Katsuo Kawanaka</i> <i>Director: Masahiro Matono</i>
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Kinki (Osaka) Sales Headquarters
Nihon Kasai-Osaka Building,
1-11-4, Edobori, Nishi-ku, Osaka 550-0002, Japan
Tel: 06-449-5001 Fax: 06-441-7160
Managing Director: Teruo Isogai
Director: Kenji Kajiwara

	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	TOC Osaki Building, 1-6-1, Osaki, Shinagawa-ku, Tokyo 141-0032 Tel: 03-3495-4971 Fax: 03-3495-4960 <i>Chairman: Etsuo Hashimoto</i> <i>President: Akira Fukushima</i>
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 <i>Chairman: Masaru Yutaka</i> <i>President: Kunitoshi Masuda</i>
Y.O. Machinery Leasing Co., Ltd.	Joint venture with a specialized machinery trading company; handling leases and installment sales for machine tools and other equipment.	1984	81	World Trade Center Building, 2-4-1, Hamamatsu-cho, Minato-ku, Tokyo 105-6135 Tel: 03-3435-6990 Fax: 03-3435-6415 <i>President: Katsuo Kawanaka</i>
ORIX Aircraft Corporation	Aircraft leasing.	1986	100	World Trade Center Building, 2-4-1, Hamamatsu-cho, Minato-ku, Tokyo 105-6135 Tel: 03-3438-2831 Fax: 03-3435-6448 <i>President: Takashi Koizumi</i>

Real Estate Related Business

ORIX Corporation

Principal Business

Real Estate Business Headquarters

Extending housing loans, project finance, brokering real estate and other real estate related services, such as dormitory leasing.

Real Estate Business Headquarters

Shinjuku Mitsui Building No. 2,
3-2-11, Nishi-Shinjuku, Shinjuku-ku, Tokyo 160-8370,
Japan

Tel: 03-3345-2500 Fax: 03-3345-2588

Director: Hiroaki Nishina

Director: Yoshiyasu Shiota

	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: 06-571-2481 Fax: 06-572-5741 <i>President: Yutaka Shiraiishi</i>
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 <i>Chairman: Sachio Hata</i> <i>President: Shunji Sasaki</i>
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 <i>Chairman: Toshio Saruwatari</i> <i>President: Kazuo Yokoyama</i>
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 <i>President: Hiroshi Maruyama</i> <i>Deputy President: Takafumi Kanda</i>
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 <i>President: Hiroshi Maruyama</i> <i>Deputy President: Takafumi Kanda</i>
ORIX Club Corporation	Consumer loans.	1994	100	2-4-27, Doujima, Kita-ku, Osaka 530-0003 Tel: 06-454-1188 Fax: 06-454-1189 <i>President: Hiroshi Maruyama</i> <i>Deputy President: Takafumi Kanda</i>
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 <i>President: Shogo Kajinishi</i> <i>Deputy President: Yuzo Sotani</i>
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: 0522680 <i>President: Koichiro Muta</i>

	Principal Business	Established (equity interest acquired)	ORIX Group's Ownership (%)	
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 <i>President: Kazuhiko Naganuma</i>
Marine Transport				
ORIX Maritime Corporation	Shipping and ship management services.	1977	100	1-31-8, Kakinokizaka, Meguro-ku, Tokyo 152-0022 Tel: 03-5701-3180 Fax: 03-5701-3161 Telex: 2427492 ORIX MT J <i>President: Takashi Koizumi</i> <i>Managing Director: Masao Dohi</i>
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 <i>Chairman: Shogo Kajinishi</i> <i>President: Shinobu Shiraishi</i>
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 <i>President: Koichi Maki</i>
Interior Products				
ORIX Interior Corporation	Listed manufacturer of carpet and other interior products; extending real estate related finance.	(1987)	58	1-2-30-201, Benten, Minato-ku, Osaka 552-0007 Tel: 06-577-0651 Fax: 06-577-8165 <i>President: Yutaka Shiraishi</i>
Entertainment				
ORIX Baseball Club	Professional baseball team.	(1988)	100	No. 6, Kaigandori, Chuo-ku, Kobe 650-0024 Tel: 078-333-0044 Fax: 078-333-0048 <i>President: Yasushi Iwai</i>
Futures and Options				
ORIX COMMODITIES Corporation	Joint venture with Commodities Corporation engaged in futures and options trading.	1990	100	Fujiwara Building, 1-10-11, Ebisu-Nishi, Shibuya-ku, Tokyo 150-0021 Tel: 03-3780-7200 Fax: 03-3780-7249 <i>President: Sugayoshi Kurose</i>
Hotel Management and Training Facilities Management				
BlueWave Inn Corporation	Hotel management.	1991	100	2-33-7, Asakusa, Taitou-ku, Tokyo 111-0032 Tel: 03-5828-4366 Fax: 03-5828-6421 <i>President: Moriaki Usami</i>
Cross Wave Corporation	Training facilities management.	1993	100	2-9-3, Honmachi, Funabashi, Chiba 273-0005 Tel: 0474-36-0111 Fax: 0474-36-0112 <i>President: Sugayoshi Kurose</i>
Broadcasting				
Japan Sports Channel Inc.	Broadcasting via satellite.	(1992)	28	2-5-1, Kita-Aoyama, Minato-ku, Tokyo 107-8077 Tel: 03-3497-9900 Fax: 03-3497-9908 <i>Senior Managing Director: Yoshiaki Toyota</i>

	Principal Business	Established (equity interest acquired)	ORIX Group's Ownership (%)	
Transportation				
SKYMARK AIRLINES CO., LTD.	Airline travel services.	1996	20	SVAX Shinjuku Building B, 5th Floor, 2-9-23, Shinjuku, Shinjuku-ku, Tokyo 160-0022 Tel: 03-5379-0767 Fax: 03-5379-0768 <i>Managing Director: Yoshiyuki Yoshizumi</i>
Eco Services				
ORIX Eco Services Corporation	Eco services.	1998	100	Karuko-zaka MN Building, 2-1, Ageba-cho, Shinjuku-ku, Tokyo 162-8570 Tel: 03-5228-5330 Fax: 03-5228-5861 <i>President: Sugao Suito</i>
Trust Bank				
Yamaichi Trust & Bank, Ltd.*	Trust bank.	(1998)	100	7-2, Kabuto-cho, Nihonbashi, Chuo-ku, Tokyo 103-0026 <i>President: Toru Yamagishi</i>

*The name of this company is scheduled to be changed to ORIX Trust and Banking Corporation.

■ International Operations

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 World Trade Center Building, 2-4-1, Hamamatsu-cho, Minato-ku, Tokyo 105-6135, Japan Tel: 03-3435-6652 Fax: 03-3435-7822 Telex: J24642 <i>Deputy President: Yoshiaki Ishida</i> <i>Managing Director: Takashi Koizumi</i>
International Department	Keeping up the worldwide Group network and being responsible for centralized planning and administrative support for international operations.	<i>Deputy General Manager: Minoru Ono</i>
Corporate Development Department	Planning and development of new business and investments, including mergers and acquisitions overseas.	<i>Deputy General Manager: Motokazu Kakizaki</i>
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.	<i>General Manager: Takahide Sato</i>
International Business Department	Arranging diversified financing (corporate, asset-based, sovereign, and structured); investing in prime international capital and money market products.	<i>General Manager: Hiromi Kobayashi</i>
International Real Estate Department	Financing, equity placement, investment, brokerage, consulting, and development in connection with real estate.	<i>Deputy General Manager: Nakatoshi Noguchi</i>
Aerospace Department I	Operating leases and finance leases for aircraft.	<i>Deputy General Manager: Tatsuro Suzuki</i>
Aerospace Department II	Arranging leveraged leases for aircraft and other equipment; development and marketing of asset-based structured investment schemes.	<i>Deputy General Manager: Tatsuro Suzuki</i>

ASIA & OCEANIA REGION

Director and Regional Chief Executive: **Takeshi Sato**

	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, #17-02 Raffles City Tower, Singapore 179101 Tel: 3395766 Fax: 3392160 Chairman: Takeshi Sato 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 0718 Tel: 3393622 Fax: 3393966 Telex: 21117 OLSPL 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 General Manager: Michael W. S. Choo
ORIX COMMODITIES SINGAPORE PTE LTD.	Singapore	Trading futures and options for proprietary and client accounts.	1990	100	250 North Bridge Road, #17-02 Raffles City Tower, Singapore 179101 Tel: 3395766 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 Tel: 28629268 Fax: 25279688 Telex: 75680 ORIX 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 Tel: 28629268 Fax: 25279688
ORIX Auto Leasing Asia Limited	China (Hong Kong)	Auto leasing.	1995	89	30th Floor, United Centre, 95 Queensway, Hong Kong Tel: 28629268 Fax: 28657930 Telex: 75680 ORIX Managing Director: Mitsuo Nishiumi
China Orient Leasing Co., Ltd.	China	Equipment leasing.	1981	50	Rooms 408-410, Dongyi Commercial Office Building, No. 23, Xibahe Xili, Beisanhuan Dong Road, Chaoyang District, Beijing 100028, China Tel: 10-6427-9988 Fax: 10-6429-5753 Telex: 210656 COLEA CN President: Kotaro Takamori
Shanghai Yin Tong Trust Co., Ltd.	China	Consumer credit and hire-purchase services for individuals.	1993	42	7th Floor, 66 Nan Jing Road (E), Shanghai, China (P.C. 200002) Tel: 21-6361-2072 Fax: 21-6361-2969 Senior Vice President: Yasushi Nakamoto
ORIX Maritime Corporation, Seoul Representative Office	South Korea	Liaison functions for ORIX Maritime Corporation.	1992	—	11th Floor, Suhrin Building, #88 Suhrin-Dong, Chongro-ku, Seoul, South 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, South Korea Tel: 2-3700-0114 Fax: 2-3700-0019 Telex: DELEASE K 26261 President and CEO: Yea Sun Hahn
Global Rental Company Limited	South Korea	Equipment rental.	1995	52	4th Floor, Dongshin Bldg., 141-28 Samsung-Dong, Kangnam-ku, Seoul, South Korea, 135-090 Tel: 2-557-5656 Fax: 2-562-0958 Vice President and CEO: Tae Young, Chung

*Listed company

	Country	Principal Business	Established (equity interest acquired)	ORIX Group's Ownership (%)	
Korea Rental Corporation	South Korea	Rental of office equipment, measuring instruments, etc.	(1996)	36	7.8.9.FI. Buok-Bldg., 648-18, Yeoksam-Dong, Kangnan-ku, Seoul, South Korea Tel: 2-554-9696 Fax: 2-556-4343 <i>Chairman: Lee Choog-Ho</i>
ORIX Taiwan Corporation	Taiwan	Hire-purchase services and equipment leasing services.	1982	95	10th Floor, 217, Nan King E. Road, Sec. 3, Taipei, Taiwan, R.O.C. Tel: 2-715-5458 Fax: 2-713-2448 <i>President: Takahisa Sato</i>
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: 2-719-5166 Fax: 2-545-0870 <i>Chairman: Takahisa Sato</i>
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 Telex: 22546 COLF PH <i>President and CEO: Eduardo R. Alvarez</i> <i>Director: Kazuya Nakanishi</i>
Thai ORIX Leasing Co., Ltd.	Thailand	Equipment leasing, hire-purchase, and factoring services.	1978	48	313 C.P. Tower, 24th Floor, Silom Road, Bangrak, Bangkok 10500, Thailand Tel: 2-2310589 Fax: 2-2310661 <i>President: Suvit Arunanondchai</i> <i>Executive Director: Junichi Hayashi</i>
UNITED ORIX LEASING BERHAD	Malaysia	Equipment leasing and other financing services.	1973	44	12th Floor, Menara Promet, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia Tel: 3-2418355 Fax: 3-2487344 Telex: MA30900 UOLKL <i>Deputy Chairman: Masafumi Aoyama</i> <i>Managing Director: Dato' Tan Guan Cheong</i>
ORIX CAR RENTALS SDN. BHD.	Malaysia	Rent-a-car business.	1989	44	16-1, Jalan 6/91, Taman Shamelin Perkasa, 56100 Kuala Lumpur, Malaysia Tel: 3-9847799 Fax: 3-9861799 <i>General Manager: Ng Chee Kheong</i>
ORIX Rentec (Malaysia) Sdn. Bhd.	Malaysia	Equipment rental.	1996	83	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 <i>Director: Dato' Tan Guan Cheong</i>
P.T. ORIX Indonesia Finance	Indonesia	Equipment leasing and other financing services.	1975	83	Wisma Kyoel Prince, 24th Floor, Jl. Jend. Sudirman Kav. 3-4, Jakarta 10220, Indonesia Tel: 21-5723041 Fax: 21-5723071 Telex: 65077 ORIF JKIA <i>President and Director: Yoshinori Tsukiji</i>
INFRA-STRUCTURE LEASING & FINANCIAL SERVICES LIMITED	India	Infrastructure commercialization, equipment leasing, and other financing services.	(1993)	20	4th Floor, Mahindra Towers, G.M. Bhosale Marg, Worli, Bombay 400-018, India Tel: 22-4935127 Fax: 22-4930080 Telex: 74474 <i>Vice Chairman & Managing Director: Ravi Parthasarathy</i> <i>Senior Vice President: Genichi Fujinaga</i>
ORIX Auto Finance (India) Limited	India	Auto leasing and fleet management.	1995	60	4th Floor, Mahindra Towers, G.M. Bhosale Marg, Worli, Bombay 400-018, India Tel: 22-4962442 Fax: 22-4962441 <i>Chief Executive Officer: Richard Miranda</i>
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 Telex: 21214 LOLC CE <i>Managing Director: E.C.S.R. Muttupulle</i>
ORIX Australia Corporation Limited	Australia	Equipment leasing, vehicle operating leases, and other financing services.	1986	100	Level 1, 4-10 Bay Street, Double Bay, NSW 2028, Australia Tel: 2-9335-5300 Fax: 2-9335-5355 <i>Deputy Chairman: Yoshiaki Komai</i> <i>Managing Director: John Sweeney</i>

*Listed company

	Country	Principal Business	Established (equity interest acquired)	ORIX Group's Ownership (%)	
Ranger Truck Rental and Leasing Pty. Ltd.	Australia	Truck rental and vehicle operating leases.	(1998)	100	42 Molan Street, Ringwood, VIC 3134, Australia Tel: 3-9870-6100 Fax: 3-9870-8842 <i>Chairman: John Sweeney</i>
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 <i>Managing Director: Peter Byers</i>

MIDDLE EASTERN & NORTH AFRICAN REGION

Director and Regional Chief Executive: **Takeshi Sato** 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 Telex: 20104 ORIX PK <i>Chief Executive: Humayun Murad</i>
ORIX Investment Bank Pakistan Limited*	Pakistan	Investment bank.	1995	29	3rd Floor, PIC Towers, 32-A, Lalazar Drive, Moulvi Tamizuddin Khan Road, Karachi-74000, Pakistan Tel: 21-5610272 Fax: 21-5610510 Telex: 82-20104 ORIX PK <i>Managing Director: Mohammed Aslam</i>
OMAN ORIX LEASING COMPANY SAOG*	Oman	Equipment leasing.	1994	11	3rd Floor, Al Harthy Complex, Al Qurum, Muscat, Sultanate of Oman Tel: 565612 Fax: 565610 <i>General Manager: Shaheen Amin</i>
ORIX Leasing Egypt, S.A.E.	Egypt	Equipment leasing.	1997	36	4th Floor, Cairo Center, 2, Abd El-Kader Hamza St., Garden City, Cairo, Egypt Tel: 20-2-5942757-9 Fax: 20-2-5942760 <i>Managing Director: Saeed Reza</i>

*Listed company

AMERICAS REGION

Director 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: 212-739-1600 Fax: 212-739-1701 <i>Chairman: D.E. Mundell</i> <i>President and CEO: Yoshio Ono</i> <i>Deputy President: Kiyoshi Fushitani</i>
Los Angeles Office					<i>Advisor: Edward Guay</i> Wintonbury Risk Management 550 South Hope Street, Suite 1600, Los Angeles, CA 90071, U.S.A. Tel: 213-955-6500 Fax: 213-955-6530 <i>Senior Vice President: Makoto Inoue</i>
San Francisco Office					One Bush Street, Suite 250, San Francisco, CA 94104, U.S.A. Tel: 415-433-0300 Fax: 415-433-7343 <i>Branch Manager: Frank Anton</i>

	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 <i>Vice Chairman and CEO: Masaaki Tashiro</i> <i>President and COO: James H. Purinton</i>
ORIX Commercial Alliance Corporation	U.S.A.	Installment financing.	(1989)	100	300 Lighting Way, Secaucus, NJ 07096-1525, U.S.A. Tel: 201-601-9000 Fax: 201-601-9100 <i>President and CEO: Philip D. Cooper</i> <i>Executive Vice President: Kensuke Ishibashi</i>
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: 214-290-2408 Fax: 214-290-4480 <i>President and CEO: James R. Thompson</i>
Stockton Holdings Limited	Bermuda	Trading in global futures markets for proprietary and client accounts.	(1989)	38	Stockton House, 55 Par-la-Ville Road, P.O. Box 3218, Hamilton HM NX, Bermuda Tel: 441-299-7414 Fax: 441-299-7488 <i>President and CEO, Chairman: Robert G. Easton</i>
Leasing Andino S.A.	Chile	Equipment leasing services.	(1980)	35	Moneda 970, Piso 8, Edificio Eurocentro, Santiago, Chile Tel: 2-6964891 Fax: 2-6956147 <i>Director and Vice Chairman: Yuji Nishioka</i>
Bradesco Leasing S.A. Arrendamento Mercantil	Brazil	Equipment leasing services.	1973	25	Cidade de Deus, Vila Yara, Osasco, São Paulo, Brazil Tel: 11-70823101 Fax: 11-70845533 <i>Director: Paulo Uekita</i>
ORIX Auto Locadora Ltda.	Brazil	Auto leasing.	1997	100	Rua Anselmo Pedro de Medeiros No.12, Jd. Wilson, Osasco, São Paulo, Brazil Tel: 55-11-70859198 Fax: 55-11-70816624 <i>Executive Director: Makoto Shioda</i>

EUROPEAN REGION

Managing Director and Regional Chief Executive: **Takashi Koizumi**

	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 Telex: 893292 ORIX LNG <i>Chairman: Takashi Koizumi</i> <i>Managing Director: Yoichi Mikami</i>
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 <i>Executive Director: Hisao Namiki</i>
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 Telex: 91807 ORIX EI <i>Managing Director: Akira Kashi</i>
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 Telex: 91807 ORIX EI <i>Managing Director: Hideo Ichida</i>
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 <i>President: Ralph Kravitz</i>

Board of Directors



Yoshihiko Miyauchi
President and Chief
Executive Officer

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Yoshihiko Miyauchi

DEPUTY PRESIDENT

Yoshiaki Ishida

SENIOR MANAGING DIRECTOR

Koichi Maki

*Office of Corporate Planning
Accounting Department*

MANAGING DIRECTORS

Takashi Koizumi

*International Headquarters
Regional Chief Executive, European Region*

Katsuo Kawanaka

*Tokyo Sales Headquarters
Office of Corporate
Reengineering*

Teruo Isogai

Kinki (Osaka) Sales Headquarters

Hiroshi Furukawa

District Sales Headquarters

Shunsuke Takeda

Treasury Department

DIRECTORS

Hiroaki Nishina

Real Estate Business Headquarters

Kenji Kajiwara

Kinki (Osaka) Sales Headquarters

Yasuhiko Fujiki

Office of Assistant to the President

Yoshiyasu Shiota

Real Estate Business Headquarters

Masahiro Matono

Tokyo Sales Headquarters

Hiroshi Nakajima

General Affairs Department

Yoshio Ono

*Regional Chief Executive,
Americas Region*

Hiroyuki Harada

Credit Department

Takeshi Sato

*Regional Chief Executive, Asia
and Oceania Region*

Akira Fukushima

*President,
ORIX Auto Leasing Corporation*

CORPORATE AUDITORS

Takeo Shiraki

Yuji Yamazaki

Naoaki Fujiyama

Yasuo Hama

OFFICERS

Masaru Hattori

Office of Corporate Planning

Nobuyuki Kobayashi

Tokyo Sales Headquarters

Shunji Sasaki

*President,
ORIX Rentec Corporation*

Shinobu Shiraishi

*President,
ORIX Life Insurance
Corporation*

HONORARY CHAIRMAN

Tsuneo Inui

COUNSELOR AND SPECIAL ADVISOR

Shogo Kajinishi

ADVISOR

D.E. Mundell

*Chairman,
ORIX USA CORPORATION*

The Company has introduced a system whereby all members of the Board of Directors are designated as corporate officers.

(As of July 1, 1998)

Board of Advisors

Akira Miyahara

*Vice Chairman and Co-Chief Executive
Officer, Fuji Xerox Co., Ltd.*

Tatsuya Tamura

*President, Electronic Data Systems
Corporation (EDS Japan)
Chairman, A.T. Kearney, Inc.*

Yoshinori Yokoyama

Director, McKinsey & Company, Inc., Japan

(As of June 26, 1998)

Corporate Information

ORIX Corporation

World Trade Center Building,
2-4-1, Hamamatsu-cho, Minato-ku,
Tokyo 105-6135, Japan
Tel: 03-3435-6641
Fax: 03-3435-6642
Telex: 24642

Established: April 17, 1964
Shareholders' Equity: ¥313,821 million
Number of Employees: 8,203

Shareholder Information

Total Number of Shares Authorized:
259,000,000 shares
Total Number of Shares Outstanding:
64,870,299 shares
Number of Shareholders: 5,669
Transfer Agent for Common Shares:
The Toyo Trust and Banking Company, Ltd.
1-4-3, Marunouchi, Chiyoda-ku,
Tokyo 100-0005, Japan

Stock Exchange Listings

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

(As of March 31, 1998)

For further information,
please write to:

Corporate Communications,
Office of Assistant to the President,
ORIX Corporation
World Trade Center Building,
2-4-1, Hamamatsu-cho, Minato-ku,
Tokyo 105-6135, Japan

Please visit us on the Internet:
<http://www.orix.co.jp>

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.

ORIX Corporation