ORIX CORP
Form 6-K
November 13, 2014

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 OF

THE SECURITIES EXCHANGE Act of 1934

For the month of November 2014.

Commission File Number: 001-14856

ORIX Corporation

(Translation of Registrant s Name into English)

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

Tokyo, JAPAN

(Address of Principal Executive Offices)

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

Form 20-F x Form 40-F ¨

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

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

Table of Document(s) Submitted

1. This is an English translation of ORIX Corporation s quarterly financial report (*shihanki houkokusho*) as filed with the Kanto Financial Bureau in Japan on November 13, 2014, which includes unaudited consolidated financial information prepared in accordance with generally accepted accounting principles in the United States for the three and six months ended September 30, 2013 and 2014.

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SIGNATURES

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

ORIX Corporation

Date: November 13, 2014

By /s/ Haruyuki Urata
Haruyuki Urata
Director
Deputy President and Chief Financial Officer
ORIX Corporation

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CONSOLIDATED FINANCIAL INFORMATION

Notes to Translation

1. The following is an English translation of ORIX Corporation s quarterly financial report (*shihanki houkokusho*) as filed with the Kanto Financial Bureau in Japan on November 13, 2014, which includes unaudited consolidated financial information prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for the three and six months ended September 30, 2013 and 2014.

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

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

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

This document contains non-GAAP financial measures, including adjusted long-term and interest-bearing debt, adjusted total assets and adjusted ORIX Corporation shareholders equity, as well as other measures and ratios calculated on the basis thereof. These non-GAAP financial measures should not be considered in isolation or as a substitute for the most directly comparable financial measures included in our consolidated financial statements presented in accordance with U.S. GAAP. Reconciliations of these non-GAAP financial measures to the most directly comparable U.S. GAAP measures are included in this document.

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

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1. Information on the Company and its Subsidiaries
(1) Consolidated Financial Highlights

	Millions of yen (except for per share amounts and ratios)		
	Six months ended September 30, 2013	**Six months ended September 30, 2014**	**Fiscal year ended March 31, 2014**
Total revenues	¥ 609,103	¥ 945,175	¥ 1,341,651
Income before income taxes and discontinued operations	122,131	203,004	283,726
Net income attributable to ORIX Corporation shareholders	80,408	142,106	186,794
Comprehensive Income attributable to ORIX Corporation shareholders	85,568	150,777	223,059
ORIX Corporation shareholders equity	1,759,626	2,036,578	1,918,740
Total assets	8,429,989	11,215,063	9,069,392
Earnings per share for net income attributable to ORIX Corporation shareholders			
Basic (yen)	64.67	108.50	147.30
Diluted (yen)	61.86	108.34	142.77
ORIX Corporation shareholders equity ratio (%)	20.9	18.2	21.2
Cash flows from operating activities	218,969	108,760	470,993
Cash flows from investing activities	(110,713)	(141,111)	(202,166)
Cash flows from financing activities	(230,853)	16,571	(274,579)
Cash and cash equivalents at end of period	706,289	814,923	827,299

	Millions of yen (except for per share amounts and ratios)	
	Three months ended September 30, 2013	**Three months ended September 30, 2014**
Total revenues	¥ 333,031	¥ 507,432
Net income attributable to ORIX Corporation shareholders	35,401	73,501
Earnings per share for net income attributable to ORIX Corporation shareholders		
Basic (yen)	28.19	56.12

Notes 1. Pursuant to FASB Accounting Standards Codification (ASC) 205-20 (Presentation of Financial Statements Discontinued Operations), certain amounts in the fiscal year ended March 31, 2014 related to the operations of subsidiaries, business units, and certain properties that have been sold or are to be disposed of by sale without significant continuing involvement as of September 30, 2014 have been reclassified retrospectively.

2. Consumption tax is excluded from the stated amount of total revenues.

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(2) Overview of Activities

During the six months ended September 30, 2014, no significant changes were made in the Company and its subsidiaries operations.

The change of principal related companies are below:

Retail Segment

During the three months ended September 30, 2014, ORIX Life Insurance Corporation (hereinafter, ORIX Life Insurance), a wholly owned subsidiary of the Company, completed the acquisition of the entire issued shares of Hartford Life Insurance K.K. (Head office: Minato-ku, Tokyo, Japan; business description: life insurance business and reinsurance business, etc., hereinafter, HLIKK) from The Hartford Life, Inc. (Head office: Simsbury, Connecticut, U.S.A.), a wholly owned second-tier subsidiary of The Hartford Financial Services Group, Inc. in order to enhance ORIX Life Insurance s capital strength and improve the soundness of its operations with the aim of accelerating its future growth. As a result, HLIKK has become a consolidated subsidiary of the Company.

2. Risk Factors

Investing in our securities involves risks. You should carefully consider the information described herein as well as the risks described under Risk Factors in our Form 20-F for the fiscal year ended March 31, 2014 and the other information in that annual report, including, but not limited to, our consolidated financial statements and related notes and Item 11. Quantitative and Qualitative Disclosures about Market Risk. Our business activities, financial condition and results of operations and the trading prices of our securities could be adversely affected by any of those factors or other factors.

3. Material Contracts

Not applicable.

4. Analysis of Financial Results and Condition

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

(1) Qualitative Information Regarding Consolidated Financial Results

Economic Environment

Since the beginning of this year, the global economy had been on a recovery path led by the U.S. economy. However, views are now divided on the world s future economic prospects, and global stock markets are becoming more sensitive towards the results of major economic indicators.

In the United States, the job market and consumer spending are on an improving trend, while debates surrounding the timing of the interest rate hike are gaining momentum. On the other hand, we are seeing some uncertainties in the future of the European economy, and the market is paying particular attention to the future course of monetary easing policy by the European Central Bank.

In Asia, the emerging markets are experiencing different levels of growth. China s economic growth is steadily declining towards a more sustainable level while other Asian countries are maintaining certain level of growth despite experiencing some effects from the global economy.

The Japanese economy continues to grow modestly with solid employment conditions, despite signs of weakness in some of the economic indicators due to the consumption tax hike that went into effect in April 2014.

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Financial Highlights

Financial Results for the Six Months Ended September 30, 2014

Total revenues	¥945,175 million (Up 55% year on year)
Total expenses	¥809,000 million (Up 61% year on year)
Income before income taxes and discontinued operations	¥203,004 million (Up 66% year on year)
Net income attributable to ORIX Corporation Shareholders	¥142,106 million (Up 77% year on year)
Earnings per share for net income attributable to ORIX Corporation Shareholders	
(Basic)	¥108.50 (Up 68% year on year)
(Diluted)	¥108.34 (Up 75% year on year)
ROE (Annualized) *1	14.4% (9.5% during the same period in the previous fiscal year)
ROA (Annualized) *2	2.80% (1.91% during the same period in the previous fiscal year)

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

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

Total Revenues for the six months ended September 30, 2014 (hereinafter, the second consolidated period) increased 55% to ¥945,175 million compared to ¥609,103 million during the same period in the previous fiscal year. Compared to the same period of the previous fiscal year, life insurance premiums and related investment income increased as a result of the recognition of investment income from underlying investments related to variable annuity and variable life insurance contracts in accordance with the consolidation of Hartford Life Insurance K.K. (hereinafter, HLIKK), which became a consolidated subsidiary on July 1, 2014. In addition, revenues from asset management and servicing increased due to the consolidation of Robeco Groep N.V. (hereinafter, Robeco), which became a consolidated subsidiary on July 1, 2013. Sales of goods increased primarily due to contribution from subsidiaries acquired as a part of our private equity investments. Furthermore, other operating revenues and real estate sales increased due to contributions from DAIKYO INCORPORATED (hereinafter, DAIKYO), which became a consolidated subsidiary on February 27, 2014, contributions from subsidiaries acquired as a part of our private equity investments, and growth in our environment and energy-related business. In addition, brokerage commissions and net gains on investment securities increased due to the sale of shares of Monex Group Inc. On the other hand, interest on loans and investment securities decreased compared to the same period of the previous fiscal year due to decreases in the average balance of installment loans and gains from sales of loans.

Total Expenses increased 61% to ¥809,000 million compared to ¥502,116 million during the same period of the previous fiscal year. As with the abovementioned revenue increase, life insurance costs, costs of real estate sales, expenses from asset management and servicing, costs of goods sold, and other operating expenses primarily increased. Selling, general and administrative expenses also increased due primarily to an increase in consolidation of acquired companies and strong fee business in the United States. Meanwhile, interest expense decreased compared to the same period of the previous fiscal year due to a decrease in the average balance of borrowings.

Gains on sales of subsidiaries and affiliates and liquidation losses, net increased compared to the same period of the previous fiscal year primarily due to the recognition of a gain on the sale of partial equity interest STX Energy Co., Ltd. (presently GS E&R Corp., hereinafter, STX Energy). In addition, the acquisition of HLIKK resulted in a bargain purchase gain of ¥36,761 million due to an excess of fair value of the net assets acquired over the fair value of the consideration transferred.

As a result of the foregoing, income before income taxes and discontinued operations for the second consolidated period increased 66% to ¥203,004 million compared to ¥122,131 million during the same period of the previous fiscal year, and net income attributable to ORIX Corporation shareholders increased 77% to ¥142,106 million compared to ¥80,408 million during the same period of the previous fiscal year.

For more information about the acquisition of HLIKK, see Note 4 Acquisitions .

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Segment Information

Total revenues and profits by segment for the six months ended September 30, 2013 and 2014 are as follows:

	Millions of yen							
	Six months ended September 30, 2013		Six months ended September 30, 2014		Change (revenues)		Change (profits)	
	Segment Revenues	Segment Profits	Segment Revenues	Segment Profits	Amount	Percent (%)	Amount	Percent (%)
Corporate Financial Services	¥ 37,273	¥ 11,446	¥ 37,444	¥ 12,646	¥ 171	0	¥ 1,200	10
Maintenance Leasing	125,236	20,513	131,729	21,509	6,493	5	996	5
Real Estate	99,300	8,769	92,204	15,750	(7,096)	(7)	6,981	80
Investment and Operation	78,683	22,215	241,251	15,323	162,568	207	(6,892)	(31)
Retail	103,474	28,379	181,924	77,724	78,450	76	49,345	174
Overseas Business	151,364	34,204	251,733	61,533	100,369	66	27,329	80
Total	595,330	125,526	936,285	204,485	340,955	57	78,959	63
Difference between Segment Total and Consolidated Amounts	13,773	(3,395)	8,890	(1,481)	(4,883)	(35)	1,914	
Total Consolidated Amounts	¥ 609,103	¥ 122,131	¥ 945,175	¥ 203,004	¥ 336,072	55	¥ 80,873	66

Total assets by segment as of March 31, 2014 and September 30, 2014 are as follows:

	Millions of yen					
	March 31, 2014		September 30, 2014		Change	
	Segment Assets	Composition ratio (%)	Segment Assets	Composition ratio (%)	Amount	Percent (%)
Corporate Financial Services	¥ 992,078	10.9	¥ 983,575	8.8	¥ (8,503)	(1)
Maintenance Leasing	622,009	6.9	656,143	5.9	34,134	5
Real Estate	962,404	10.6	885,334	7.9	(77,070)	(8)
Investment and Operation	565,740	6.2	606,045	5.4	40,305	7
Retail	2,166,986	23.9	3,907,031	34.8	1,740,045	80
Overseas Business	1,972,138	21.8	2,090,120	18.6	117,982	6
Total	7,281,355	80.3	9,128,248	81.4	1,846,893	25
Difference between Segment Total and Consolidated Amounts	1,788,037	19.7	2,086,815	18.6	298,778	17
Total Consolidated Amounts	¥ 9,069,392	100.0	¥ 11,215,063	100.0	¥ 2,145,671	24

Segment profits increased 63% to ¥204,485 million compared to ¥125,526 million during the same period of the previous fiscal year. The Retail, Overseas Business, and Real Estate segments made significant profit contributions and the Corporate Financial Services and Maintenance Leasing segments also displayed strong performance, while profits from the Investment and Operation segment decreased compared to the same period of the previous fiscal year.

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Segment information for the second consolidated period is as follows:

Corporate Financial Services Segment: Lending, leasing and fee business

		Six months ended September 30, 2013	Six months ended September 30, 2014	Change Amount	Change Percent (%)
Segment Profits	(millions of yen)	11,446	12,646	1,200	10

		As of March 31, 2014	As of September 30, 2014	Change Amount	Change Percent (%)
Segment Assets	(millions of yen)	992,078	983,575	(8,503)	(1)

In Japan, we are seeing steady growth in capital expenditures and continued improvement in corporate revenues, despite a temporary negative impact on consumer spending and housing investment arising from the consumption tax hike that went into effect in April 2014. We are also seeing an increase in lending by financial institutions to small and medium enterprises (SMEs) in addition to large corporations, while the competition in the lending business continues to intensify.

Installment loan revenues decreased in line with a decrease in the average balance of installment loans. On the other hand, direct financing lease revenues remained robust due to an increase in the average balance of direct financing leases. Segment profits increased compared to the same period of the previous fiscal year due primarily to robust fee business including solar panel and life insurance sales to domestic SMEs.

Segment assets decreased compared to the end of the previous fiscal year due to a decrease in installment loans despite an increase in investment in securities.

Maintenance Leasing Segment: Automobile leasing and rentals, car sharing and precision measuring equipment and IT-related equipment rentals and leasing

		Six months ended September 30, 2013	Six months ended September 30, 2014	Change Amount	Change Percent (%)
Segment Profits	(millions of yen)	20,513	21,509	996	5

		As of March 31, 2014	As of September 30, 2014	Change Amount	Change Percent (%)
Segment Assets	(millions of yen)	622,009	656,143	34,134	5

The Japanese automobile leasing industry has been experiencing steady recovery in the number of new auto leases in line with Japan s steady economic recovery, despite some temporary negative impact from the consumption tax hike that went into effect in April 2014. Furthermore, in the retail market, we are seeing new developments such as online retailers entry into the used car sales business.

Operating lease revenues and direct financing lease revenues increased in line with the steady expansion of assets in the automobile business, and costs of operating leases and selling, general and administrative expenses increased in line with an increase in revenues. Segment profits increased compared to the same period of the previous fiscal year as a result of an increase in profits driven by the asset growth despite a decrease in gains on sales of used cars.

Segment assets increased compared to the end of the previous fiscal year due to steady increases in investment in operating leases and investment in direct financing leases mainly in the automobile business.

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Real Estate Segment: Real estate development, rental and financing; facility operation; REIT asset management; and real estate investment and advisory services

		Six months ended September 30, 2013	Six months ended September 30, 2014	Change Amount	Change Percent (%)
Segment Profits	(millions of yen)	8,769	15,750	6,981	80

		As of March 31, 2014	As of September 30, 2014	Change Amount	Change Percent (%)
Segment Assets	(millions of yen)	962,404	885,334	(77,070)	(8)

Office rents and vacancy rates in the Japanese office building market are continuing to show signs of improvement. In the J-REIT market, property acquisitions are increasing, and we are also seeing sales of large-scale real estates and rising sales prices due to increased competition among buyers. In addition, REITs are expanding their investment targets, as can be seen with the planned listing of the healthcare REIT that mainly invests in senior housing such as private nursing homes.

Rental and interest revenues decreased due to a decrease in asset balance and real estate sales decreased in connection with a decrease in the number of condominium units delivered mainly by ORIX Real Estate. On the other hand, gains on sales of real estate under operating leases increased. In addition, segment profits increased compared to the same period of the previous fiscal year due to decreases in losses from inventory valuation, which are included in costs of real estate sales, and write-downs of long-lived assets.

Segment assets decreased compared to the end of the previous fiscal year mainly as a result of sales of rental properties.

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

		Six months ended September 30, 2013	Six months ended September 30, 2014	Change Amount	Change Percent (%)
Segment Profits	(millions of yen)	22,215	15,323	(6,892)	(31)

		As of March 31, 2014	As of September 30, 2014	Change Amount	Change Percent (%)
Segment Assets	(millions of yen)	565,740	606,045	40,305	7

In the Japanese environment and energy-related industry, even though the renewable energy purchase program is being reassessed, the significance of renewable energy is on the rise with investment targets expanding beyond solar power generation projects to include wind and geothermal power generation projects. In the capital markets, the fiscal year ended March 31, 2014 marked the fourth consecutive year of increase in the number of initial public offerings. Such favorable environment is continuing into this fiscal year with listings of major companies taking place both in Japan and overseas.

Segment profits decreased compared to the same period of the previous fiscal year due to a decrease in installment loan revenues in the loan servicing business and profit from DAIKYO despite solid profit contributions from the portfolio companies in the principal investment business and the environment and energy-related business.

Segment assets increased compared to the end of the previous fiscal year due to an increase in assets in the environment and energy-related business, offsetting a decrease in installment loans in the loan servicing business.

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Retail Segment: Life insurance, banking and the card loan business

		Six months ended September 30, 2013	Six months ended September 30, 2014	Change Amount	Change Percent (%)
Segment Profits	(millions of yen)	28,379	77,724	49,345	174

		As of March 31, 2014	As of September 30, 2014	Change Amount	Change Percent (%)
Segment Assets	(millions of yen)	2,166,986	3,907,031	1,740,045	80

Although the life insurance business is being affected by macroeconomic factors such as domestic population decline, we are seeing increasing number of companies developing new products in response to the rising demand for medical insurance. In the consumer finance sector, loan demand is increasing due to the improved consumer confidence resulting from Japan s economic recovery and consumer finance providers are enhancing their sales activities accordingly.

Segment profits increased significantly compared to the same period of the previous fiscal year due to the recognition of gain on sale of shares of Monex Group Inc. and a bargain purchase gain of ¥36,761 million resulting from the acquisition of HLIKK on July 1, 2014, in addition to an increase in installment loan revenues in the banking business and an increase in insurance premium income as a result of an increase in the number of policies in force in the life insurance business.

Segment assets increased significantly compared to the end of the previous fiscal year as a result of an increase in investment in securities due to the consolidation of HLIKK, which was acquired on July 1, 2014, in addition to an increase in assets in the banking business.

Overseas Business Segment: Leasing, lending, investment in bonds, investment banking, asset management and ship- and aircraft-related operations

		Six months ended September 30, 2013	Six months ended September 30, 2014	Change Amount	Change Percent (%)
Segment Profits	(millions of yen)	34,204	61,533	27,329	80

		As of March 31, 2014	As of September 30, 2014	Change Amount	Change Percent (%)
Segment Assets	(millions of yen)	1,972,138	2,090,120	117,982	6

In the United States, the job market and consumer spending are on an improving trend, while debates surrounding the timing of the interest rate hike are gaining momentum. On the other hand, we are seeing some uncertainties in the future of the European economy, and the market is paying particular attention to the future course of monetary easing policy by the European Central Bank. In Asia, the emerging markets are experiencing different levels of growth. China s economic growth is steadily declining towards a more sustainable level while other countries are maintaining certain level of growth despite experiencing some effects from the global economy.

Fee revenues in the United States increased in addition to an increase in asset management revenues due primarily to the acquisition of Robeco on July 1, 2013. Furthermore, we recognized a gain on sale of partial equity interest STX Energy, which was deconsolidated by the sale. Segment profits increased significantly compared to the same period of the previous fiscal year despite an increase in selling, general, and administrative expenses due to an increase in revenues.

Segment assets increased compared to the end of the previous fiscal year due to increases in installment loans and investment in securities in the United States despite a decrease in other operating assets due to the sale of partial equity interest STX Energy, which as a result of the sale became an equity method affiliate from a consolidated subsidiary.

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(2) Financial Condition

	As of March 31, 2014	As of September 30, 2014	Change Amount	Percent (%)
Total assets (millions of yen)	¥ 9,069,392	¥ 11,215,063	¥ 2,145,671	24
(Segment assets)	7,281,355	9,128,248	1,846,893	25
Total liabilities (millions of yen)	6,921,037	8,931,551	2,010,514	29
(Short- and long-term debt)	4,168,465	4,200,244	31,779	1
(Deposits)	1,206,413	1,218,164	11,751	1
ORIX Corporation shareholders equity (millions of yen)	1,918,740	2,036,578	117,838	6
ORIX Corporation shareholders equity per share (yen)*1	1,465.31	1,556.84	91.53	6
ORIX Corporation shareholders equity ratio*2	21.2%	18.2%	(3.0)%	
Adjusted ORIX Corporation shareholders equity ratio*3	21.8%	18.6%	(3.2)%	
D/E ratio (Debt-to-equity ratio) (Short-and long-term debt (excluding deposits) / ORIX Corporation shareholders equity)	2.2x	2.1x	(0.1)x	
Adjusted D/E ratio*3	2.0x	1.9x	(0.1)x	

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

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

*3 Adjusted ORIX Corporation shareholders equity ratio and Adjusted D/E ratio are non-GAAP financial measures presented on an adjusted basis which excludes the effect of consolidating certain variable interest entities (VIEs) on our assets or liabilities and reverses the cumulative effect on our retained earnings of such consolidation, which resulted from applying the accounting standards for the consolidation of VIEs under ASU 2009-16 and ASU 2009-17, effective April 1, 2010. For a discussion of these and other non-GAAP financial measures, including a quantitative reconciliation to the most directly comparable GAAP financial measures, please see 5. Non-GAAP Financial Measures.

Total assets increased 24% to ¥11,215,063 million compared to ¥9,069,392 million at the end of the previous fiscal year. Investment in securities and other assets increased in conjunction with the consolidation of HLIKK. In addition, installment loans increased primarily due to the purchase of loans in the United States. Meanwhile, investment in operating leases decreased due to the sales of rental properties and aircraft and other operating assets decreased as a result of STX Energy, changing from a consolidated subsidiary to an equity-method affiliate. Segment assets increased 25% compared to the end of the previous fiscal year to ¥9,128,248 million.

We manage balance of interest-bearing liabilities at an appropriate level taking into account the projection or condition of assets and liquidity on-hand as well as the domestic and overseas financial environment. As a result, short- and long-term debt and deposits increased compared to the end of the previous fiscal year. In addition, policy liabilities and policy account balances for the variable annuity and variable life insurance contracts increased in connection with the consolidation of HLIKK.

Shareholders equity increased 6% to ¥2,036,578 million compared to the end of the previous fiscal year primarily due to an increase in retained earnings.

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The effects of the consolidation of HLIKK are as follows:

HLIKK primarily sold variable annuity and variable life insurance products. Variable annuity and variable life insurance products are insurance products in which insurance premiums paid by policyholders are invested using policyholders accounts and the amount of insurance benefits is determined based on the investment performance. The investment assets managed on behalf of policyholders primarily consist of equity securities that are categorized as trading securities, and the investment assets of ¥1,448,821 million are included in investment in securities in the condensed consolidated balance sheets as of September 30, 2014. During the three-month period ended September 30, 2014, the aggregated amount of net gains from sales of the investment assets and net valuation gains on the investment assets was ¥58,463 million and such amount is included in life insurance premiums and related investment income in the condensed consolidated statements of income. In addition, a portion of the minimum guarantee risk related to variable annuity and variable life insurance contracts are reinsured with a third party, and the amount of reinsurance recoverables due from the reinsurance contracts is included in other assets in the condensed consolidated balance sheets. We have elected the fair value option for the reinsurance contracts and changes in fair value of the reinsurance contracts are recorded in life insurance costs in the condensed consolidated statements of income. Furthermore, we entered into derivative contracts in order to economically hedge part of the minimum guarantee risk, and the related gains and losses on derivative contracts are included in life insurance premiums and related investment income in the condensed consolidated statements of income. We have also elected the fair value option for the variable annuity and variable life insurance contracts and the fair value of those contracts is recorded in policy liabilities and policy account balances in the condensed consolidated balance sheets, and changes in the fair value are recorded in life insurance costs in the condensed consolidated statements of income. The fair value of variable annuity and variable life insurance contracts is linked to the fair value of the underlying investments. Although variable annuity and variable life insurance contracts are exposed to the minimum guarantee risk, such risk is appropriately managed by entering into reinsurance and derivative contracts.

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(3) Liquidity and Capital Resources

We require capital resources for working capital and investment and lending in our businesses. We accordingly prioritize funding stability, maintaining adequate liquidity, and reducing capital costs. We formulate and execute on funding policies that are resilient to sudden deterioration in financial markets, and then conduct funding activities in accordance with actual transitions in our assets and changes in financial markets. In preparing our management plan, we project funding activities to maintain a balanced capital structure in light of projected cash flows, asset liquidity and our own liquidity situation. In implementation, we adjust our funding plan based on changes in the external funding environment and our funding needs in light of our business activities, and endeavor to maintain flexibility in our funding activities.

We have endeavored to diversify our funding sources, promote longer liability maturities, stagger interest and principal repayment dates, and otherwise maintain sufficient liquidity and reinforce our funding stability.

Our funding was comprised of borrowings from financial institutions, direct fund procurement from capital markets, and deposits. ORIX Group s total funding including that from short- and long-term debt and deposits on a consolidated basis was ¥5,418,408 million as of September 30, 2014.

Borrowings were procured from a diverse range of financial institutions including major banks, regional banks, foreign banks and life and casualty insurance companies. The number of financial institutions from which we procured borrowings exceeded 200 as of September 30, 2014. Procurement from the capital markets was composed of bonds, medium-term notes, commercial paper, payables under securitized leases, loan receivables and other assets (including asset backed securities). ORIX Group accepts deposits for funding purposes, with the majority of deposits attributable to ORIX Bank Corporation.

In an effort to promote longer liability maturities, during the six months ended September 30, 2014, we issued ten-year domestic straight bonds to institutional investors and ten-year and seven-year domestic straight bonds to retail investors. We intend to continue to strengthen our financial condition, while maintaining an appropriate funding mix.

Short-term and long-term debt and deposits

(a) Short-term debt

	Millions of yen	
	March 31, 2014	September 30, 2014
Borrowings from financial institutions	¥ 208,598	¥ 187,111
Commercial paper	100,993	163,186
Total short-term debt	¥ 309,591	¥ 350,297

Short-term debt as of September 30, 2014 was ¥350,297 million, which accounted for 8% of the total amount of short and long-term debt (excluding deposits) as compared to 7% as of March 31, 2014.

While the amount of short-term debt as of September 30, 2014 was ¥350,297 million, the sum of cash and cash equivalents and the unused amount of committed credit facilities as of September 30, 2014 was ¥1,218,754 million.

(b) Long-term debt

	Millions of yen	
	March 31, 2014	September 30, 2014
Borrowings from financial institutions	¥ 2,430,225	¥ 2,500,645
Bonds	1,128,788	1,063,936
Medium-term notes	46,034	48,062
Payables under securitized lease, loan receivables and other assets	253,827	237,304

Total long-term debt	¥ 3,858,874	¥ 3,849,947

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The balance of long-term debt as of September 30, 2014 was ¥3,849,947 million, which accounted for 92% of the total amount of short and long-term debt (excluding deposits) as compared to 93% as of March 31, 2014. On an adjusted basis, our ratio of long-term debt to total debt (excluding deposits) was 91% as of September 30, 2014 as compared to 92% as of March 31, 2014. This ratio is a non-GAAP financial measure presented on an adjusted basis that excludes payables under securitized leases, loan receivables and other assets. For a discussion of this and other non-GAAP financial measures including reconciliations to the most directly comparable financial measures presented in accordance with GAAP, see 5. Non-GAAP Financial Measures.

(c) Deposits

	Millions of yen	
	March 31, 2014	September 30, 2014
Deposits	¥ 1,206,413	¥ 1,218,164

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

(4) Summary of Cash Flows

Cash and cash equivalents as of September 30, 2014 decreased by ¥12,376 million to ¥814,923 million compared to March 31, 2014.

Cash flows provided by operating activities were ¥108,760 million in the six months ended September 30, 2014, down from ¥218,969 million during the same period of the previous fiscal year, primarily resulting from an increase in net income, and a decrease in trading securities, but partially offset by a net decrease in policy liabilities and policy account balances compared to net increase during the same period of the previous fiscal year, and a larger decrease in trade notes, accounts payable and other liabilities, in addition to adjustments made for gains on sales of subsidiaries and affiliates and liquidation losses, net, and bargain purchase gain compared to the same period of the previous fiscal year.

Cash flows used in investing activities were ¥141,111 million in the six months ended September 30, 2014, up from ¥110,713 million during the same period of the previous fiscal year. This change was primarily due to an increase in installment loans made to customers and a decrease in principal collected on installment loans, but partially offset by a decrease in acquisitions of subsidiaries, net of cash acquired, compared to the same period of the previous fiscal year, Robeco acquired, and an increase in proceeds from sales of available-for-sale securities.

Cash flows provided by financing activities were ¥16,571 million in the six months ended September 30, 2014, while having used ¥230,853 million during the same period of the previous fiscal year. This change was primarily due to net increase in debt with maturities of three months or less compared to net decrease during the same period of the previous fiscal year, a decrease in repayment of debt with maturities longer than three months, but partially offset by a net decrease in proceeds from debt with maturities longer than three months.

(5) Challenges to be addressed

There were no significant changes for the six months ended September 30, 2014.

(6) Research and Development Activity

There were no significant changes in research and development activity for the six months ended September 30, 2014.

(7) Employees

The number of employees as of September 30, 2014 increased 4,270 to 30,247 compared to 25,977 as of March 31, 2014 mainly due to corporate acquisitions in the Investment and Operation segment.

(8) Major facilities

There were no significant changes in major facilities for the six months ended September 30, 2014.

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5. Non-GAAP Financial Measures

Section 4 Analysis of Financial Results and Condition contains certain financial measures presented on a basis not in accordance with U.S. GAAP (commonly referred to as non-GAAP financial measures), including long-term debt, ORIX Corporation shareholders equity and total assets, as well as other measures or ratios calculated based on those measures, presented on an adjusted basis, which excludes payables under securitized leases, loan receivables and other assets and reverses the cumulative effect on retained earnings of applying the accounting standards for the consolidation of VIEs under ASU 2009-16 and ASU 2009-17, effective April 1, 2010.

Our management believes these non-GAAP financial measures provide investors with additional meaningful comparisons between our financial condition as of September 30, 2014, as compared to prior periods. Effective April 1, 2010, we adopted ASU 2009-16 and ASU 2009-17, which changed the circumstances under which we are required to consolidate certain VIEs. Our adoption of these accounting standards caused a significant increase in our consolidated assets and liabilities and a decrease in our retained earnings without affecting the net cash flow and economic effects of our investments in such consolidated VIEs. Accordingly, our management believes that providing certain financial measures that exclude the impact of consolidating certain VIEs on our assets and liabilities as a supplement to financial information calculated in accordance with U.S. GAAP enhances understanding of the overall picture of our current financial position and enables investors to evaluate our historical financial and business trends without the large balance sheet fluctuation caused by our adoption of these accounting standards.

We provide these non-GAAP financial measures as supplemental information to our consolidated financial statements prepared in accordance with U.S. GAAP, and they should not be considered in isolation or as substitutes for the most directly comparable U.S. GAAP measures.

The tables set forth below provide reconciliations of these non-GAAP financial measures to the most directly comparable financial measures presented in accordance with U.S. GAAP as reflected in our consolidated financial statements for the periods provided.

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		2014	
		As of March 31,	As of September 30,
		(Millions of yen, except percentage data)	
Total assets	(a)	9,069,392	11,215,063
Deduct**:** Payables under securitized leases, loan receivables and other assets*		253,827	237,304
Adjusted total assets	(b)	8,815,565	10,977,759
Short-term debt	(c)	309,591	350,297
Long-term debt	(d)	3,858,874	3,849,947
Deduct**:** Payables under securitized leases, loan receivables and other assets*		253,827	237,304
Adjusted long-term debt	(e)	3,605,047	3,612,643
Long- and short-term debt (excluding deposits)	(f)=(c)+(d)	4,168,465	4,200,244
Adjusted short- and long-term debt (excluding deposits)	(g)=(c)+(e)	3,914,638	3,962,940
ORIX Corporation shareholders equity	(h)	1,918,740	2,036,578
Deduct**:** The cumulative effect on retained earnings of applying the accounting standards for the consolidation of VIEs under ASU 2009-16 and ASU 2009-17, effective April 1, 2010		(5,195)	(2,993)
Adjusted ORIX Corporation shareholders equity	(i)	1,923,935	2,039,571
ORIX Corporation shareholders equity ratio	(h)/(a)	21.2%	18.2%
Adjusted ORIX Corporation shareholders equity ratio	(i)/(b)	21.8%	18.6%
D/E ratio	(f)/(h)	2.2x	2.1x
Adjusted D/E ratio	(g)/(i)		