

Interim Consolidated Financial Statements (Unaudited)

For the Three Months Ended June 30, 2016

<Under Japanese GAAP>

NTT FINANCE CORPORATION

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NTT FINANCE CORPORATION and Consolidated Subsidiaries
**Interim Consolidated Balance Sheets
June 30, 2016 as compared with March 31, 2016—Unaudited**

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	June 30, 2016	March 31, 2016	June 30, 2016		June 30, 2016	March 31, 2016	June 30, 2016
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents	¥ 415,785	¥ 530,173	\$ 4,040,283	Short-term bank loans	¥ 67,392	¥ 43,283	\$ 654,867
Lease receivables and investments in leases	436,979	437,198	4,246,228	Current portion of long-term borrowings	29,332	45,233	285,034
Trade accounts receivable:				Current portion of bonds	56,027	61,124	544,427
Installment sales	75,983	72,770	738,347	Commercial papers	300,000	-	2,915,168
Loans	989,548	900,854	9,615,673	Trade notes and accounts payable	12,715	20,702	123,564
Other loans	44,113	55,561	428,662	Accounts payable - other	436,608	434,456	4,242,623
Rents	20,695	20,875	201,101	Accrued income taxes	1,454	1,957	14,136
	48,403	48,942	470,349	Unearned profit on installment sales	2,470	2,352	24,006
Credit cards				Deposits received	108,936	145,778	1,058,562
Billing	127,008	128,425	1,234,171	Deposits received from shareholders, directors or employees	527,351	817,546	5,124,396
Allowance for doubtful receivables	(23,765)	(23,783)	(230,934)	Asset retirement obligations	241	226	2,345
Investments in venture businesses	1,888	2,044	18,347	Other	19,434	17,006	188,849
Securities	8,269	5,811	80,354				
Other	43,273	40,619	420,502				
				Total current liabilities	1,561,966	1,589,669	15,177,983
Total current assets	2,188,184	2,219,493	21,263,088				
PROPERTY AND EQUIPMENT, NET:				LONG-TERM LIABILITIES:			
Leased assets	31,461	32,591	305,715	Bonds	145,222	162,658	1,411,163
Assets held for own use	4,488	4,333	43,615	Long-term borrowings	475,118	463,109	4,616,833
				Defined benefit liability	24,475	24,367	237,832
Total property and equipment, net	35,949	36,925	349,330	Accrued directors' retirement benefits	33	46	323
				Asset retirement obligations	2,155	2,170	20,944
INTANGIBLE ASSETS—Assets held for own use	2,898	3,240	28,163	Other	11,382	10,700	110,610
				Total long-term liabilities	658,388	663,052	6,397,707
INVESTMENTS AND OTHER ASSETS:							
Investment securities	88,284	86,831	857,879	Total liabilities	2,220,354	2,252,721	21,575,691
Other	22,188	24,269	215,607				
Allowance for doubtful receivables	(3,438)	(3,369)	(33,414)	NET ASSETS:			
Allowance for investment loss	-	-	-	Shareholders' equity (Note 5):			
				Common stock—authorized, 80,000 shares;			
Total investments and other assets	107,033	107,732	1,040,071	issued, 51,960 shares as of June 30 and March 31, 2016	16,770	16,770	162,967
				Capital surplus	15,950	15,950	154,994
				Retained earnings	82,882	83,292	805,383
				Treasury stock; 595 shares as of June 30 and March 31, 2016	(1,126)	(1,126)	(10,951)
				Total shareholders' equity	114,476	114,887	1,112,394
				Accumulated other comprehensive income/(loss):			
				Unrealized gain on available-for-sale securities	1,146	1,141	11,138
				Foreign currency translation adjustments	(139)	498	(1,356)
				Remeasurements of defined benefit plans	(2,571)	(2,637)	(24,987)
				Total accumulated other comprehensive income/(loss)	(1,564)	(996)	(15,206)
				Non-controlling interests	800	778	7,774
				Total net assets	113,711	114,669	1,104,962
TOTAL ASSETS	¥ 2,334,066	¥ 2,367,390	\$ 22,680,653	TOTAL LIABILITIES AND NET ASSETS	¥ 2,334,066	¥ 2,367,390	\$ 22,680,653

See notes to interim consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Three-Month Periods Ended June 30, 2016 and 2015—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three -Month Period Ended June 30		Three -Month Period Ended June 30
	2016	2015	2016
REVENUE	¥ 100,126	¥ 97,547	\$ 972,949
COST OF SALES	<u>61,723</u>	<u>57,779</u>	<u>599,781</u>
Gross profit	38,402	39,768	373,168
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>33,115</u>	<u>34,639</u>	<u>321,788</u>
Operating income	<u>5,287</u>	<u>5,128</u>	<u>51,379</u>
OTHER INCOME:			
Interest income	0	0	0
Dividend income	22	23	218
Gain on bad debts recovered	94	97	918
Equity in earnings of affiliates	35	32	347
Foreign exchange gain	-	108	-
Other	<u>13</u>	<u>16</u>	<u>133</u>
Total other income	166	276	1,619
OTHER EXPENSES:			
Interest expense	51	55	503
Foreign exchange loss	716	-	6,959
Loss on retirement of assets held for own use	27	58	268
Other	<u>35</u>	<u>2</u>	<u>348</u>
Total other expenses	<u>831</u>	<u>116</u>	<u>8,080</u>
EXTRAORDINARY LOSSES:			
Head office transfer cost	<u>653</u>	-	<u>6,353</u>
Total extraordinary losses	653	-	6,353
PROFIT BEFORE TAXES	<u>3,968</u>	<u>5,288</u>	<u>38,564</u>
INCOME TAXES	1,244	1,921	12,091
PROFIT	<u>2,724</u>	<u>3,367</u>	<u>26,472</u>
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	21	22	205
PROFIT ATTRIBUTABLE TO OWNERS OF PARENT	<u>¥ 2,703</u>	<u>¥ 3,344</u>	<u>\$ 26,266</u>

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Three-Month Periods Ended June 30, 2016 and 2015—Unaudited

	Yen		U.S. Dollars (Note 1)
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2016	2015	2016
PER SHARE OF COMMON STOCK:			
Weighted average number of shares outstanding	51,365	51,365	51,365
Basic earnings per share	¥ 52,625.67	¥ 65,112.56	\$ 511.37

See notes to interim consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Comprehensive Income
Three-Month Periods Ended June 30, 2016 and 2015—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2016	2015	2016
PROFIT	¥ 2,724	¥ 3,367	\$ 26,472
OTHER COMPREHENSIVE INCOME(/LOSS):			
Net unrealized gain/(loss) on available-for-sale securities	4	(247)	42
Foreign currency translation adjustments	(532)	109	(5,170)
Remeasurements of defined benefit plans	66	(15)	644
Share of other comprehensive income of affiliates accounted for using equity method	(106)	1	(1,034)
Total other comprehensive income/(loss)	(567)	(152)	(5,518)
COMPREHENSIVE INCOME	¥ 2,156	¥ 3,215	\$ 20,954
Comprehensive income attributable to:			
Owners of the parent	¥ 2,135	¥ 3,192	\$ 20,748
Non-controlling interests	21	22	205

See notes to interim consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Notes to Interim Consolidated Financial Statements—Unaudited

1. BASIS OF PRESENTATION OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NTT FINANCE CORPORATION (the “Company”) maintains its books of account in accordance with the provisions set forth in the Companies Act of Japan and the Financial Instruments and Exchange Act of Japan and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The accompanying interim consolidated financial statements have been compiled from the interim consolidated financial statements that were filed with the Director of the Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Act of Japan. In preparing the accompanying interim consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan.

The accounting standard for quarterly financial statements requires companies to prepare a set of interim consolidated financial statements for each quarter comprised of the consolidated balance sheet as of the current quarter-end and the consolidated statements of income, comprehensive income and cash flows for the year-to-date period. Consolidated statements of changes in net assets are not required.

Effective April 1, 2011, under the revised accounting standard for quarterly financial statements, the year-to-date consolidated statements of cash flows for the first quarter and the third quarter are not required but may be prepared at the company’s option. In addition, the consolidated statements of income and comprehensive income for the current quarter are not required but may be prepared at the company’s option.

The consolidated statements of cash flows and changes in net assets are not presented herein.

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. As permitted by the regulations under the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying interim consolidated financial statements in yen do not necessarily agree with the sums of the individual amounts.

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, as a matter of arithmetic computation only, and has been made at the rate of ¥102.91 to \$1.00, the approximate rate of exchange at June 30, 2016, and then the translated amounts have been rounded down to the nearest thousand. As a result, the totals shown in the accompanying interim consolidated financial statements in U.S. dollar do not necessarily agree with the sums of the individual amounts. Such translation should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

2. SIGNIFICANT ACCOUNTING POLICIES

Substantially the same accounting policies have been followed in these interim consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended March 31, 2016.

3. CHANGE IN ACCOUNTING POLICY

Depreciation method for property, plant and equipment

Previously, the Company had principally adopted the declining-balance method as the depreciation method for property, plant and equipment except for buildings. However, the Company has adopted the straight-line method of depreciation from the first quarter of the year ending March 31, 2017.

The background of this change was that NIPPON TELEGRAPH AND TELEPHONE CORPORATION (“NTT”), the parent company of the Company, and its subsidiaries in Japan switched the depreciation method for property, plant and equipment from the declining-balance method to the straight-line method from the first quarter of the year ending March 31, 2017.

Therefore, the Company reviewed the utilization pattern of its property, plant and equipment. As a result of the

review, the Company concluded that it is appropriate to adopt the straight-line method as the depreciation method for all property, plant and equipment considering the Company's operations in both financial and settlement services in cooperation with NTT Group.

This change has had an immaterial impact on operating income and profit before taxes for the three-month period ended June 30, 2016.

4. ADDITIONAL INFORMATION

Application of Implementation Guidance on Recoverability of Deferred Tax Assets

The Company has applied the Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan ("ASBJ") Guidance No. 26, issued on March 28, 2016) from the first quarter of the year ending March 31, 2017.

5. SECURITIES, INVESTMENT SECURITIES AND INVESTMENTS IN VENTURE BUSINESSES

The amounts of securities, investment securities and investments in venture businesses including carrying amounts on the accompanying interim consolidated balance sheet do not change significantly compared to those as of March 31, 2016.

6. EQUITY

Dividends

The following dividends are paid during the three-month periods ended June 30, 2016 and 2015:

Three-Month Period Ended June 30, 2016								
Resolution	Class of Shares	Total Dividends (Millions of Yen)	Total Dividends (Thousands of U.S. Dollars)	Dividends per Share (Yen)	Dividends per Share (U.S. Dollars)	Record Date	Effective Date	Source of Dividends
Annual shareholders' meeting held on June 17, 2016	Common stock	¥ 3,113	\$ 30,256	¥60,620.00	\$ 589.05	March 31, 2016	June 20, 2016	Retained earnings
Three-Month Period Ended June 30, 2015								
Resolution	Class of Shares	Total Dividends (Millions of Yen)		Dividends per Share (Yen)		Record Date	Effective Date	Source of Dividends
Annual shareholders' meeting held on June 19, 2015	Common stock	¥ 4,105		¥79,920.00		March 31, 2015	June 22, 2015	Retained earnings

7. DEPRECIATION

Depreciation of leased assets and assets held for own use for the three-month periods ended June 30, 2016 and 2015 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2016	2015	2016
Leased assets and assets held for own use	¥ 1,335	¥ 1,228	\$ 12,974

8. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

The amounts of financial instruments including carrying amounts on the accompanying interim consolidated balance sheet as of June 30, 2016 do not change significantly compared to those as of March 31, 2016.

9. DERIVATIVES

The amounts of derivatives including contract amounts as of June 30, 2016 do not change significantly compared to those as of March 31, 2016.

10. COMMITMENTS AND CONTINGENCIES

Contingent liabilities as of June 30, 2016 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees in the ordinary course of business	¥ 13,270	\$ 128,954

11. SEGMENT INFORMATION

Information about revenue and profit by reportable segment

The following tables represent information about revenue and profit by reportable segment for the three-month periods ended June 30, 2016 and 2015.

	Millions of Yen					
	Three-Month Period Ended June 30, 2016					
	Reportable Segment					
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	¥ 48,265	¥ 2,270	¥ 614	¥ 1,305	¥ 47,669	¥ 100,126
Intersegment revenue or transfers	-	-	-	8,081	64	8,145
Total	¥ 48,265	¥ 2,270	¥ 614	¥ 9,387	¥ 47,734	¥ 108,271
Segment profit	¥ 2,838	¥ 910	¥ 292	¥ 629	¥ 3,021	¥ 7,690

Thousands of U.S. Dollars						
Three-Month Period Ended June 30, 2016						
Reportable Segment						
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	\$ 469,004	\$ 22,064	\$ 5,973	\$ 12,688	\$ 463,219	\$ 972,949
Intersegment revenue or transfers	-	-	-	78,527	623	79,151
Total	\$ 469,004	\$ 22,064	\$ 5,973	\$ 91,216	\$ 463,843	\$1,052,101
Segment profit	\$ 27,577	\$ 8,846	\$ 2,840	\$ 6,112	\$ 29,356	\$ 74,732

Millions of Yen						
Three-Month Period Ended June 30, 2015						
Reportable Segment						
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	¥ 45,061	¥ 2,093	¥ 664	¥ 1,269	¥ 48,458	¥ 97,547
Intersegment revenue or transfers	-	-	-	7,639	66	7,706
Total	¥ 45,061	¥ 2,093	¥ 664	¥ 8,908	¥ 48,525	¥ 105,253
Segment profit	¥ 3,277	¥ 695	¥ 272	¥ 651	¥ 2,358	¥ 7,255

Differences between total amounts for reportable segments and amounts in the interim consolidated statements of income and main details of these differences

	Millions of Yen		Thousands of U.S. Dollars
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2016	2015	2016
Segment profit:			
Reportable segments total	¥ 7,690	¥ 7,255	\$ 74,732
Corporate expenses (Note)	(2,403)	(2,126)	(23,353)
Operating income in the interim consolidated statements of income	¥ 5,287	¥ 5,128	\$ 51,379

Note: Corporate expenses mainly represent general and administrative expenses not attributable to reportable segments.

Change in depreciation method for property, plant and equipment

As described in “Change in Accounting Policy,” previously, the Company had principally adopted the declining-balance method as the depreciation method for property, plant and equipment except for buildings. However, the Company has adopted the straight-line method of depreciation from the first quarter of the year ending March 31, 2017.

The background of this change was that NIPPON TELEGRAPH AND TELEPHONE CORPORATION (“NTT”), the parent company of the Company, and its subsidiaries in Japan switched the depreciation method for property, plant and equipment from the declining-balance method to the straight-line method from the first quarter of the year ending March 31, 2017.

Therefore, the Company reviewed the utilization pattern of its property, plant and equipment. As a result of the review, the Company concluded that it is appropriate to adopt the straight-line method as the depreciation method for all property, plant and equipment considering the Company’s operations in both financial and settlement services in cooperation with NTT Group.

This change has had an immaterial impact on segment profit for the three-month period ended June 30, 2016.

Significant loss on impairment of long-lived assets by reportable segment

For the three-month periods ended June 30, 2016 and 2015, there is no applicable information to disclose.

Significant change in the amount of goodwill by reportable segment

For the three-month periods ended June 30, 2016 and 2015, there is no applicable information to disclose.

Significant gain on bargain purchase by reportable segment

For the three-month periods ended June 30, 2016 and 2015, there is no applicable information to disclose.

12. SUBSEQUENT EVENTS

There are no significant subsequent events to disclose.

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