

Interim Consolidated Financial Statements (Unaudited)

For the Nine Months Ended December 31, 2016

<Under Japanese GAAP>

NTT FINANCE CORPORATION

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NTT FINANCE CORPORATION and Consolidated Subsidiaries
**Interim Consolidated Balance Sheets
December 31, 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)
	December 31, 2016	March 31, 2016	December 31, 2016		December 31, 2016	March 31, 2016	December 31, 2016
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents	¥ 137,901	¥ 530,173	\$ 1,183,804	Short-term bank loans	¥ 108,377	¥ 43,283	\$ 930,354
Lease receivables and investments in leases	454,354	437,198	3,900,374	Current portion of long-term borrowings	37,725	45,233	323,855
Trade accounts receivable:				Current portion of bonds	54,517	61,124	468,000
Installment sales	81,892	72,770	702,996	Commercial papers	164,000	-	1,407,846
Loans	1,204,849	900,854	10,342,947	Trade notes and accounts payable	17,187	20,702	147,543
Other loans	52,783	55,561	453,120	Accounts payable - other	445,584	434,456	3,825,086
Rents	21,580	20,875	185,255	Accrued income taxes	3,648	1,957	31,322
Credit cards	49,797	48,942	427,484	Unearned profit on installment sales	2,657	2,352	22,813
Billing	315,833	128,425	2,711,246	Deposits received	280,012	145,778	2,403,749
Allowance for doubtful receivables	(21,138)	(23,783)	(181,461)	Deposits received from shareholders, directors or employees	536,820	817,546	4,608,293
Investments in venture businesses	2,168	2,044	18,611	Asset retirement obligations	9	226	84
Securities	1,908	5,811	16,385	Other	16,083	17,006	138,064
Other	44,414	40,619	381,270				
				Total current liabilities	1,666,624	1,589,669	14,307,014
Total current assets	2,346,345	2,219,493	20,142,035				
				LONG-TERM LIABILITIES:			
PROPERTY AND EQUIPMENT, NET:				Bonds	187,455	162,658	1,609,199
Leased assets	32,890	32,591	282,347	Long-term borrowings	487,809	463,109	4,187,564
Assets held for own use	4,270	4,333	36,663	Defined benefit liability	25,331	24,367	217,457
				Accrued directors' retirement benefits	41	46	354
Total property and equipment, net	37,161	36,925	319,011	Asset retirement obligations	2,153	2,170	18,487
				Other	12,826	10,700	110,109
INTANGIBLE ASSETS—Assets held for own use	2,048	3,240	17,589	Total long-term liabilities	715,618	663,052	6,143,173
INVESTMENTS AND OTHER ASSETS:				Total liabilities	2,382,242	2,252,721	20,450,187
Investment securities	102,692	86,831	881,559				
Other	20,782	24,269	178,404	NET ASSETS:			
Allowance for doubtful receivables	(3,231)	(3,369)	(27,739)	Shareholders' equity (Note 5):			
				Common stock—authorized, 80,000 shares;			
Total investments and other assets	120,243	107,732	1,032,224	issued, 51,960 shares as of December 31 and March 31, 2016	16,770	16,770	143,969
				Capital surplus	15,950	15,950	136,925
				Retained earnings	92,319	83,292	792,508
				Treasury stock; 595 shares as of December 31 and March 31, 2016	(1,126)	(1,126)	(9,674)
				Total shareholders' equity	123,913	114,887	1,063,728
				Accumulated other comprehensive income/(loss):			
				Unrealized gain on available-for-sale securities	912	1,141	7,835
				Foreign currency translation adjustments	360	498	3,092
				Remeasurements of defined benefit plans	(2,438)	(2,637)	(20,936)
				Total accumulated other comprehensive income/(loss)	(1,165)	(996)	(10,008)
				Non-controlling interests	809	778	6,952
				Total net assets	123,557	114,669	1,060,673
TOTAL ASSETS	<u>¥ 2,505,800</u>	<u>¥ 2,367,390</u>	<u>\$ 21,510,860</u>	TOTAL LIABILITIES AND NET ASSETS	<u>¥ 2,505,800</u>	<u>¥ 2,367,390</u>	<u>\$ 2,150,860</u>

See notes to interim consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries
Interim Consolidated Statements of Income
Nine-Month Periods Ended December 31, 2016 and 2015—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2016	2015	2016
REVENUE	¥ 294,978	¥ 286,992	\$ 2,532,219
COST OF SALES	181,405	170,627	1,557,266
Gross profit	113,572	116,365	974,953
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	95,486	102,874	819,700
Operating income	18,085	13,490	155,252
OTHER INCOME:			
Interest income	0	0	1
Dividend income	29	28	249
Gain on bad debts recovered	323	299	2,778
Equity in earnings of affiliates	91	128	787
Foreign exchange gain	341	-	2,933
Other	24	28	214
Total other income	811	485	6,964
OTHER EXPENSES:			
Interest expense	132	171	1,139
Bond issuance costs	177	-	1,521
Loss on retirement of assets held for own use	107	129	924
Other	40	78	350
Total other expenses	458	380	3,936
EXTRAORDINARY LOSSES:			
Head office transfer cost	709	-	6,089
Loss on valuation of investment securities	-	3,491	-
Total extraordinary losses	709	3,491	6,089
PROFIT BEFORE TAXES	17,728	10,104	152,191
INCOME TAXES	5,557	4,623	47,706
PROFIT	12,171	5,480	104,484
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	31	54	266
PROFIT ATTRIBUTABLE TO OWNERS OF PARENT	¥ 12,140	¥ 5,426	\$ 104,218

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Nine-Month Periods Ended December 31, 2016 and 2015—Unaudited

	Yen		U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2016	2015	2016
PER SHARE OF COMMON STOCK:			
Weighted average number of shares outstanding	51,365	51,365	51,365
Basic earnings per share	¥ 236,355.30	¥ 105,645.25	\$ 2,028.97

See notes to interim consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Comprehensive Income
Nine-Month Periods Ended December 31, 2016 and 2015—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2016	2015	2016
PROFIT	¥ 12,171	¥ 5,480	\$ 104,484
OTHER COMPREHENSIVE INCOME/(LOSS):			
Net unrealized gain/(loss) on available-for-sale securities	(229)	(373)	(1,967)
Foreign currency translation adjustments	207	21	1,781
Remeasurements of defined benefit plans	198	(50)	1,707
Share of other comprehensive income of affiliates accounted for using equity method	(346)	(41)	(2,971)
Total other comprehensive income/(loss)	(168)	(444)	(1,449)
COMPREHENSIVE INCOME	¥ 12,002	¥ 5,036	\$ 103,035
Comprehensive income attributable to:			
Owners of the parent	¥ 11,971	¥ 4,981	\$ 102,768
Non-controlling interests	31	54	266

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 ¥116.49 to \$1.00, the approximate rate of exchange at December 31, 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 nine-month period ended December 31, 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 nine-month periods ended December 31, 2016 and 2015:

Nine-Month Period Ended December 31, 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	\$ 26,729	¥60,620.00	\$ 520.38	March 31, 2016	June 20, 2016	Retained earnings

Nine-Month Period Ended December 31, 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 nine-month periods ended December 31, 2016 and 2015 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2016	2015	2016
Leased assets and assets held for own use	¥ 3,913	¥ 3,736	\$ 33,591

8. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

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

9. DERIVATIVES

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

10. COMMITMENTS AND CONTINGENCIES

Contingent liabilities as of December 31, 2016 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees in the ordinary course of business	¥ 14,057	\$ 120,674

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 nine-month Period Ended December 31, 2016 and 2015.

	Millions of Yen					
	Nine-Month Period Ended December 31, 2016					
	Reportable Segment					
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	¥ 140,201	¥ 7,604	¥ 2,450	¥ 4,030	¥ 140,691	¥ 294,978
Intersegment revenue or transfers	-	-	-	24,518	190	24,708
Total	¥ 140,201	¥ 7,604	¥ 2,450	¥ 28,548	¥ 140,881	¥ 319,687
Segment profit	¥ 8,234	¥ 3,265	¥ 1,481	¥ 1,809	¥ 10,025	¥ 24,816

Thousands of U.S. Dollars						
Nine-Month Period Ended December 31, 2016						
Reportable Segment						
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	\$1,203,550	\$ 65,279	\$ 21,040	\$ 34,597	\$1,207,752	\$2,532,219
Intersegment revenue or transfers	-	-	-	210,474	1,636	212,111
Total	<u>\$1,203,550</u>	<u>\$ 65,279</u>	<u>\$ 21,040</u>	<u>\$ 245,072</u>	<u>\$1,209,388</u>	<u>\$2,744,331</u>
Segment profit	\$ 70,689	\$ 28,033	\$ 12,715	\$ 15,534	\$ 86,060	\$ 213,032

Millions of Yen						
Nine-Month Period Ended December 31, 2015						
Reportable Segment						
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	¥ 130,673	¥ 6,787	¥ 1,818	¥ 3,902	¥ 143,811	¥ 286,992
Intersegment revenue or transfers	-	-	-	23,324	199	23,523
Total	<u>¥ 130,673</u>	<u>¥ 6,787</u>	<u>¥ 1,818</u>	<u>¥ 27,227</u>	<u>¥ 144,010</u>	<u>¥ 310,516</u>
Segment profit	¥ 8,911	¥ 2,734	¥ 792	¥ 1,945	¥ 5,570	¥ 19,954

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
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2016	2015	2016
Segment profit:			
Reportable segments total	¥ 24,816	¥ 19,954	\$ 213,032
Corporate expenses (Note)	(6,730)	(6,463)	(57,779)
Operating income in the interim consolidated statements of income	<u>¥ 18,085</u>	<u>¥ 13,490</u>	<u>\$ 155,252</u>

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 nine-month period ended December 31, 2016.

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

For the nine-month period ended December 31, 2016 and 2015, there is no applicable information to disclose.

Significant change in the amount of goodwill by reportable segment

For the nine-month period ended December 31, 2016 and 2015, there is no applicable information to disclose.

Significant gain on bargain purchase by reportable segment

For the nine-month period ended December 31, 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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