

Interim Consolidated Financial Statements (Unaudited)

For the Nine Months Ended December 31, 2020

<Under Japanese GAAP>

NTT FINANCE CORPORATION

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NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Balance Sheets
December 31, 2020 as compared with March 31, 2020—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)		Millions of Yen		Thousands of U.S. Dollars (Note 1)
	December 31, 2020	March 31, 2020	December 31, 2020		December 31, 2020	March 31, 2020	December 31, 2020
ASSETS				LIABILITIES AND NET ASSETS			
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents	¥ 466,516	¥ 452,674	\$ 4,507,406	Short-term bank loans	¥ 2,467,625	¥ 680,691	\$ 23,841,788
Trade accounts receivable:				Current portion of long-term borrowings	11,548	37,594	111,575
Loans	6,554,223	2,735,599	63,325,834	Current portion of bonds	108,526	71,191	1,048,567
Other loans	974	32,954	9,416	Commercial papers	1,564,964	662,984	15,120,427
Credit cards	66,858	62,153	645,974	Accounts payable - other	481,152	422,293	4,648,820
Billing	298,731	85,428	2,886,298	Accrued income taxes	435	5,410	4,211
Allowance for doubtful receivables	(17,467)	(26,089)	(168,769)	Deposits received	703,216	402,687	6,794,365
Investments in venture businesses	7,694	4,293	74,344	Deposits received from shareholders, directors or employees	86	592,048	833
Other	45,153	916,506	436,267	Asset retirement obligations	19	32	187
				Other	4,748	41,489	45,880
Total current assets	7,422,686	4,263,521	71,716,773	Total current liabilities	5,342,324	2,916,422	51,616,657
PROPERTY AND EQUIPMENT, NET:	4,909	36,965	47,431				
INTANGIBLE ASSETS—Assets held for own use	5,494	5,414	53,091	LONG-TERM LIABILITIES:			
INVESTMENTS AND OTHER ASSETS:				Bonds	1,193,023	258,903	11,526,796
Investment securities	17,942	116,618	173,355	Long-term borrowings	828,368	1,104,031	8,003,561
Other	14,929	31,567	144,243	Provision for loss on system use agreements	551	572	5,323
Allowance for doubtful receivables	(547)	(3,274)	(5,289)	Defined benefit liability	25,281	24,709	244,263
				Asset retirement obligations	1,484	1,872	14,342
Total investments and other assets	32,324	144,938	312,310	Other	433	18,249	4,187
DEFERRED ASSETS				Total long-term liabilities	2,049,142	1,408,338	19,798,475
Bond issuance costs	2,481	-	23,976	Total liabilities	7,391,466	4,324,761	71,415,133
Total deferred assets	2,481	-	23,976				
				NET ASSETS:			
				Shareholders' equity (Note 4):			
				Common stock—authorized, 80,000 shares;			
				issued, 51,960 shares as of December 31 and March 31, 2020	16,770	16,770	162,038
				Capital surplus	15,950	15,950	154,110
				Retained earnings	41,324	92,949	399,274
				Treasury stock; 595 shares as of December 31 and March 31, 2020	(1,126)	(1,126)	(10,888)
				Total shareholders' equity	72,919	124,543	704,535
				Accumulated other comprehensive income/(loss):			
				Unrealized gain/(loss) on available-for-sale securities	4,366	1,988	42,191
				Foreign currency translation adjustments	(386)	(65)	(3,734)
				Remeasurements of defined benefit plans	(470)	(571)	(4,543)
				Total accumulated other comprehensive income/(loss)	3,510	1,352	33,914
				Non-controlling interests	-	183	-
				Total net assets	76,429	126,079	738,449
TOTAL ASSETS	¥ 7,467,895	¥ 4,450,840	\$ 72,153,582	TOTAL LIABILITIES AND NET ASSETS	¥ 7,467,895	¥ 4,450,840	\$ 72,153,582

See notes to interim consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries
Interim Consolidated Statements of Income
Nine-Month Periods Ended December 31, 2020 and 2019—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2020	2019	2020
REVENUE	¥ 206,147	¥ 339,080	\$ 1,991,759
COST OF SALES	123,184	238,660	1,190,184
Gross profit/(loss)	82,963	100,419	801,575
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	69,148	84,386	668,101
Operating income/(loss)	13,814	16,033	133,473
OTHER INCOME:			
Interest income	0	0	1
Dividend income	54	53	525
Gain on bad debts recovered	493	425	4,765
Equity in earnings of affiliates	1,173	216	11,335
Other	78	15	759
Total other income	1,799	712	17,387
OTHER EXPENSES:			
Interest expense	205	18	1,983
Bond issuance costs	72	19	700
Foreign exchange loss	970	152	9,372
Other	147	94	1,424
Total other expenses	1,395	285	13,481
EXTRAORDINARY INCOME			
Gain on sales of shares of subsidiaries	614	-	5,933
Total extraordinary income	614	-	5,933
EXTRAORDINARY LOSSES:			
Restructuring expenses	348	-	3,370
Loss on valuation of investment securities	-	243	-
Total extraordinary losses	348	243	3,370
PROFIT/(LOSS) BEFORE TAXES	14,484	16,217	139,942
INCOME TAXES	5,244	4,974	50,672
PROFIT/(LOSS)	9,239	11,242	89,270
PROFIT/(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	7	16	72
PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF PARENT	¥ 9,231	¥ 11,226	\$ 89,197

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Nine-Month Periods Ended December 31, 2020 and 2019—Unaudited

	Yen		U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2020	2019	2020
PER SHARE OF COMMON STOCK:			
Weighted average number of shares outstanding	51,365	51,365	51,365
Basic earnings per share	¥ 179,732.13	¥ 218,567.27	\$ 1,736.54

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, 2020 and 2019—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2020	2019	2020
PROFIT/(LOSS)	¥ 9,239	¥ 11,242	\$ 89,270
OTHER COMPREHENSIVE INCOME/(LOSS):			
Unrealized gain/(loss) on available-for-sale securities	2,266	509	21,895
Foreign currency translation adjustments	(299)	(83)	(2,889)
Remeasurements of defined benefit plans	100	115	975
Share of other comprehensive income/(loss) of affiliates accounted for using equity method	89	(128)	865
Total other comprehensive income/(loss)	2,157	411	20,846
COMPREHENSIVE INCOME/(LOSS)	¥ 11,397	¥ 11,654	\$ 110,116
Comprehensive income/(loss) attributable to:			
Owners of parent	¥ 11,389	¥ 11,638	\$ 110,044
Non-controlling interests	7	16	73

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 interim 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 interim 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 ¥103.50 to \$1.00, the approximate rate of exchange at December 31, 2020, 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, 2020.

From the second quarter of the year ending March 31, 2021, NTT TC Leasing Co., Ltd. was excluded from the scope of consolidation as the entity became an affiliate due to the sale of shares held in the entity. Six subsidiaries of NTT TC Leasing Co., Ltd. including Esperance Line S.A. were also excluded from the scope of consolidation from the second quarter of the year ending March 31, 2021 resulting from the respective sale of shares. The aforementioned change in scope of consolidation is expected to have a significant impact on the consolidated financial statements for the year ending March 31, 2021 with the decrease of total assets of the consolidated balance sheets and the decrease of revenue, etc. of the consolidated statements of income.

From the second quarter of the year ending March 31, 2021, NTT TC Leasing Co., Ltd. was included in the scope of the equity method as the entity became an affiliate due to the sale of shares held in the entity.

From the third quarter of the year ending March 31, 2021, bond issuance costs which had been previously expensed as incurred were amortized using the interest method over the bond redemption period. The background of this change is an increasing role of the Company in supporting the business operations of NTT Group companies, where the Company has become a wholly owned subsidiary of NTT (Nippon Telegraph and Telephone Corporation, the parent company of the Company) in September 2020 after the spin-off of the part of leasing and international segments in July 2020, against the background of the conclusion of a capital and business tie-up agreement between NTT and Tokyo Century Corporation in February 2020. As part of efforts, the Company issued Japan's largest-ever bond of 1 trillion yen (\$9.66 billion) in December 2020 to lend funds to NTT. As this has elevated the importance of corporate bonds for the Company as a source of funds, bond issuance costs characterized as interest expenses are amortized as described above from this quarter since the benefits are expected to appear over the periods. The impact of this change, however, is immaterial on the consolidated financial statements and no retroactive application, therefore, was made.

3. 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 change significantly compared to those as of March 31, 2020.

Acquisition cost and fair value of available-for-sale securities as of December 31 and March 31, 2020 are as follows:

Millions of Yen			
December 31, 2020			
	Carrying Amount	Acquisition Cost/ Amortized Cost	Difference
Equity securities	¥ 6,614	¥ 477	¥ 6,137
Debt securities	-	-	-
Other	-	-	-
Total	¥ 6,614	¥ 477	¥ 6,137

Thousands of U.S. Dollars			
December 31, 2020			
	Carrying Amount	Acquisition Cost/ Amortized Cost	Difference
Equity securities	\$ 63,909	\$ 4,612	\$ 59,297
Debt securities	-	-	-
Other	-	-	-
Total	\$ 63,909	\$ 4,612	\$ 59,297

(Note) Unlisted equity securities of ¥1,213 million (\$11,729 thousand) and investments in partnerships of ¥823 million (\$7,960 thousand) are excluded from the above table because they do not have readily determinable market values and their fair values are not practically estimable.

Millions of Yen			
March 31, 2020			
	Carrying Amount	Acquisition Cost/ Amortized Cost	Difference
Equity securities	¥ 3,291	¥ 608	¥ 2,682
Debt securities	123,245	123,049	195
Other	-	-	-
Total	¥ 126,537	¥ 123,658	¥ 2,878

(Note) Unlisted equity securities of ¥1,442 million and investments in partnerships of ¥1,736 million are excluded from the above table because they do not have readily determinable market values and their fair values are not practically estimable.

4. EQUITY

Dividends

The following dividends are paid during the nine-month periods ended December 31, 2020 and 2019:

(1) Dividends paid in cash

Nine-Month Period Ended December 31, 2020								
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 19, 2020	Common stock	¥ 12,740	\$ 123,093	¥248,031.00	\$ 2,396.43	March 31, 2020	June 22, 2020	Retained earnings

(2) Dividends paid other than in cash

Nine-Month Period Ended December 31, 2020									
Resolution	Class of Shares	Class of Dividend Property	Carrying Amount of Dividend (Millions of Yen)	Carrying Amount of Dividend Property (Thousands of U.S. Dollars)	Dividends per Share (Yen)	Dividends per Share (U.S. Dollars)	Record Date	Effective Date	Source of Dividends
Extraordinary shareholders' meeting held on October 9, 2020	Common stock	Shares in affiliates	¥ 46,209	\$ 446,467	¥ -	\$ -	October 9, 2020	October 16, 2020	Retained earnings

(Note) NTT has obtained 40% of the shares of NTT TC Leasing Co., Ltd. previously owned by the Company as dividend in kind to strengthen and enhance the leasing business, etc. which had been spun off from the Company based on the capital and business tie-up agreement between NTT and Tokyo Century Corporation in February 2020. As a result of this dividend in kind and other variation, retained earnings decreased ¥58,949 million (\$569,560 thousand) and amounted to ¥41,324 million (\$399,275 thousand) as of December 31, 2020.

Nine-Month Period Ended December 31, 2019						
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 13, 2019	Common stock	¥ 11,761	¥228,985.00	March 31, 2019	June 14, 2019	Retained earnings

5. DEPRECIATION

Depreciation of leased assets and assets held for own use for the nine-month periods ended December 31, 2020 and 2019 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Nine-Month Period Ended December 31		Nine-Month Period Ended December 31
	2020	2019	2020
Leased assets and assets held for own use	¥ 2,539	¥ 3,338	\$ 24,537

6. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

The amounts of financial instruments including carrying amounts on the accompanying interim consolidated balance sheets as of December 31, 2020 are critical to the business operation of the Company and its subsidiaries and do change significantly compared to those as of March 31, 2020. However, a disclosure is omitted except for bonds as the differences between the carrying amounts and their fair values are immaterial both as of December 31, 2020 and as of March 31, 2020.

	Millions of Yen		
December 31, 2020	Carrying Amount	Fair Value	Difference
Bonds payable	¥ 1,301,550	¥ 1,308,726	¥ 7,176
	Thousands of U.S. Dollars		
December 31, 2020	Carrying Amount	Fair Value	Difference
Bonds payable	\$ 12,575,364	\$ 12,644,697	\$ 69,333
	Millions of Yen		
March 31, 2020	Carrying Amount	Fair Value	Difference
Bonds payable	¥ 330,095	¥ 332,142	¥ 2,046

Bonds Payable

The fair value of bonds is estimated based on the Reference Statistical Prices for OTC Bond Transactions.

7. DERIVATIVES

The amounts of derivatives including contract amounts as of December 31, 2020 do not change significantly compared to those as of March 31, 2020.

8. COMMITMENTS AND CONTINGENCIES

Contingent liabilities as of December 31, 2020 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees in the ordinary course of business	¥ 22,595	\$ 218,310

9. 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 periods ended December 31, 2020 and 2019.

Millions of Yen								
Nine-Month Period Ended December 31, 2020								
Reportable Segment							Other (Note)	Total
Billing	Credit Card	Finance	Leasing	Inter- national	Total			
Revenue from external customers	¥ 119,938	¥ 3,812	¥ 9,799	¥ 68,553	¥ 2,807	¥ 204,911	¥ 1,236	¥ 206,147
Intersegment revenue or transfers	54	32,674	-	-	-	32,729	-	32,729
Total	¥ 119,992	¥ 36,487	¥ 9,799	¥ 68,553	¥ 2,807	¥ 237,640	¥ 1,236	¥ 238,876
Segment profit	¥ 9,650	¥ 2,524	¥ 1,538	¥ 3,225	¥ 859	¥ 17,797	¥ 19	¥ 17,816

Thousands of U.S. Dollars								
Nine-Month Period Ended December 31, 2020								
Reportable Segment							Other (Note)	Total
Billing	Credit Card	Finance	Leasing	Inter- national	Total			
Revenue from external customers	\$1,158,823	\$ 36,838	\$ 94,681	\$ 662,348	\$ 27,125	\$1,979,817	\$ 11,942	\$1,991,759
Intersegment revenue or transfers	527	315,697	-	-	-	316,225	-	316,225
Total	\$1,159,351	\$ 352,536	\$ 94,681	\$ 662,348	\$ 27,125	\$2,296,042	\$ 11,942	\$2,307,985
Segment profit	\$ 93,236	\$ 24,390	\$ 14,861	\$ 31,166	\$ 8,300	\$ 171,955	\$ 186	\$ 172,141

Note: “Other” mainly includes revenue and profit arising from services based on the “Outsourcing agreement for common operations” and “System service agreement” concluded between the Company and NTT TC Leasing Co., Ltd. other than reportable segments.

Millions of Yen						
Nine-Month Period Ended December 31, 2019						
Reportable Segment						
	Billing	Credit Card	Finance	Leasing	International	Total
Revenue from external customers	¥ 122,416	¥ 4,022	¥ 10,204	¥ 186,819	¥ 15,617	¥ 339,080
Intersegment revenue or transfers	169	29,045	-	-	-	29,214
Total	¥ 122,585	¥ 33,067	¥ 10,204	¥ 186,819	¥ 15,617	¥ 368,294
Segment profit	¥ 6,085	¥ 2,676	¥ 1,589	¥ 9,854	¥ 2,122	¥ 22,328

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
	2020	2019	2020
Segment profit:			
Reportable segments total	¥ 17,797	¥ 22,328	\$ 171,955
Profit in "Other"	19	-	186
Corporate expenses (Note)	(4,002)	(6,295)	(38,668)
Operating income in the interim consolidated statements of income	¥ 13,814	¥ 16,033	\$ 133,473

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

Information regarding assets by reportable segment

As of September 30, 2020, segment assets in the leasing business and the international business decreased by ¥1,031,494 million (\$9,966,127 thousand) and ¥280,890 million (\$2,713,913 thousand), respectively, compared to the respective amounts as of March 31, 2020, which was mainly the result of the absorption-type company split conducted during the second quarter of the year ending March 31, 2021, under which the rights and obligations of the leasing business and part of the international business of the Company were transferred to NTT TC Leasing Co., Ltd.

As of December 31, 2020, segment assets in the finance business increased by ¥4,145,291 million (\$40,051,126 thousand) compared to the respective amount as of March 31, 2020, which was mainly the result of the increased loans receivable due from NTT in connection with the tender offer made by NTT for NTT DOCOMO, Inc. during the third quarter of the year ending March 31, 2021.

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

For the nine-month periods ended December 31, 2020, there is no applicable information to disclose.

For the nine-month periods ended December 31, 2019, an impairment loss was recognized in the amount of ¥1,220 million since in the segment “International” the carrying amount of the certain leased assets was reduced to the recoverable amount due to the declined profitability resulting from the decreased expected future cash flow. Such reduction was recognized in the same amount as impairment loss under the “Cost of Sales.”

Significant change in the amount of goodwill by reportable segment

For the nine-month periods ended December 31, 2020 and 2019, there is no applicable information to disclose.

Significant gain on bargain purchase by reportable segment

For the nine-month periods ended December 31, 2020 and 2019, there is no applicable information to disclose.

10. SUBSEQUENT EVENTS

There are no significant subsequent events to disclose.

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