

Interim Consolidated Financial Statements (Unaudited)

For the Three Months Ended June 30, 2020

<Under Japanese GAAP>

NTT FINANCE CORPORATION

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NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Balance Sheets
June 30, 2020 as compared with March 31, 2020—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, 2020	March 31, 2020	June 30, 2020		June 30, 2020	March 31, 2020	June 30, 2020
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents	¥ 486,163	¥ 452,674	\$ 4,512,373	Short-term bank loans	¥ 398,066	¥ 680,691	\$ 3,694,697
Lease receivables and investments in leases	680,424	679,553	6,315,430	Current portion of long-term borrowings	67,742	37,594	628,763
Trade accounts receivable:				Current portion of bonds	15,412	71,191	143,049
Installment sales	138,842	135,087	1,288,685	Commercial papers	1,292,977	662,984	12,000,900
Loans	2,769,691	2,735,599	25,707,179	Trade notes and accounts payable	14,893	20,500	138,235
Other loans	29,595	32,954	274,690	Accounts payable - other	465,009	422,293	4,316,030
Rents	25,292	26,116	234,752	Accrued income taxes	2,220	5,410	20,609
Credit cards	65,107	62,153	604,299	Unearned profit on installment sales	3,898	3,909	36,180
Billing	112,324	85,428	1,042,549	Deposits received	508,574	402,687	4,720,388
Allowance for doubtful receivables	(26,405)	(26,089)	(245,089)	Deposits received from shareholders, directors or employees	92,305	592,048	856,741
Investments in venture businesses	6,383	4,293	59,246	Asset retirement obligations	96	32	900
Securities	7,563	13,057	70,201	Other	16,354	17,079	151,797
Other	60,563	62,690	562,127				
Total current assets	4,355,545	4,263,521	40,426,446	Total current liabilities	2,877,551	2,916,422	26,708,296
PROPERTY AND EQUIPMENT, NET:				LONG-TERM LIABILITIES:			
Leased assets	37,748	32,008	350,364	Bonds	299,409	258,903	2,779,001
Assets held for own use	4,868	4,957	45,183	Long-term borrowings	1,208,344	1,104,031	11,215,377
Total property and equipment, net	42,616	36,965	395,547	Provision for loss on system use agreements	565	572	5,244
INTANGIBLE ASSETS—Assets held for own use	5,367	5,414	49,822	Defined benefit liability	24,813	24,709	230,304
				Asset retirement obligations	1,790	1,872	16,622
				Other	18,842	18,249	174,886
				Total long-term liabilities	1,553,765	1,408,338	14,421,437
INVESTMENTS AND OTHER ASSETS:				Total liabilities	4,431,317	4,324,761	41,129,733
Investment securities	114,469	116,618	1,062,461	NET ASSETS:			
Other	36,593	31,567	339,646	Shareholders' equity (Note 4):			
Allowance for doubtful receivables	(3,264)	(3,274)	(30,299)	Common stock—authorized, 80,000 shares; issued, 51,960 shares as of June 30 and March 31, 2020	16,770	16,770	155,661
Total investments and other assets	147,798	144,938	1,371,807	Capital surplus	15,950	15,950	148,046
				Retained earnings	84,969	92,949	788,649
				Treasury stock; 595 shares as of June 30 and March 31, 2020	(1,126)	(1,126)	(10,460)
				Total shareholders' equity	116,563	124,543	1,081,896
				Accumulated other comprehensive income/(loss):			
				Unrealized gain/(loss) on available-for-sale securities	3,981	1,988	36,950
				Foreign currency translation adjustments	(181)	(65)	(1,683)
				Remeasurements of defined benefit plans	(537)	(571)	(4,988)
				Total accumulated other comprehensive income/(loss)	3,262	1,352	30,278
				Non-controlling interests	184	183	1,715
				Total net assets	120,010	126,079	1,113,890
TOTAL ASSETS	¥ 4,551,328	¥ 4,450,840	\$ 42,243,624	TOTAL LIABILITIES AND NET ASSETS	¥ 4,551,328	¥ 4,450,840	\$ 42,243,624

See notes to interim consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Income
Three-Month Periods Ended June 30, 2020 and 2019—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2020	2019	2020
REVENUE	¥ 116,704	¥ 119,229	\$ 1,083,200
COST OF SALES	82,785	85,594	768,384
Gross profit/(loss)	33,918	33,635	314,816
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	26,744	28,919	248,228
Operating income/(loss)	7,174	4,715	66,587
OTHER INCOME:			
Interest income	0	0	1
Dividend income	48	43	454
Gain on bad debts recovered	156	149	1,450
Equity in earnings of affiliates	83	41	773
Other	12	4	113
Total other income	300	238	2,792
OTHER EXPENSES:			
Interest expense	37	0	350
Bond issuance costs	72	19	673
Foreign exchange loss	211	374	1,962
Other	34	48	318
Total other expenses	356	442	3,304
EXTRAORDINARY LOSSES:			
Restructuring expenses	288	-	2,675
Loss on valuation of investment securities	-	243	-
Total extraordinary losses	288	243	2,675
PROFIT/(LOSS) BEFORE TAXES	6,830	4,267	63,399
INCOME TAXES	2,063	1,147	19,148
PROFIT/(LOSS)	4,767	3,120	44,251
PROFIT/(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	7	13	69
PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF PARENT	¥ 4,760	¥ 3,107	\$ 44,181

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Interim Consolidated Statements of Income
Three-Month Periods Ended June 30, 2020 and 2019—Unaudited**

	Yen		U.S. Dollars (Note 1)
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2020	2019	2020
PER SHARE OF COMMON STOCK:			
Weighted average number of shares outstanding	51,365	51,365	51,365
Basic earnings per share	¥ 92,672.33	¥ 60,497.25	\$ 860.14

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, 2020 and 2019—Unaudited**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2020	2019	2020
PROFIT/(LOSS)	¥ 4,767	¥ 3,120	\$ 44,251
OTHER COMPREHENSIVE INCOME/(LOSS):			
Unrealized gain/(loss) on available-for-sale securities	1,992	171	18,491
Foreign currency translation adjustments	(73)	(231)	(686)
Remeasurements of defined benefit plans	33	38	312
Share of other comprehensive income/(loss) of affiliates accounted for using equity method	(42)	40	(392)
Total other comprehensive income/(loss)	1,909	18	17,725
COMPREHENSIVE INCOME/(LOSS)	¥ 6,677	¥ 3,138	\$ 61,976
Comprehensive income/(loss) attributable to:			
Owners of parent	¥ 6,669	¥ 3,125	\$ 61,907
Non-controlling interests	7	13	70

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 ¥107.74 to \$1.00, the approximate rate of exchange at June 30, 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.

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 not change significantly compared to those as of March 31, 2020.

4. EQUITY

Dividends

The following dividends are paid during the three-month periods ended June 30, 2020 and 2019:

Three-Month Period Ended June 30, 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	\$ 118,249	¥248,031.00	\$ 2,302.12	March 31, 2020	June 22, 2020	Retained earnings

Three-Month Period Ended June 30, 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 three-month periods ended June 30, 2020 and 2019 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2020	2019	2020
Leased assets and assets held for own use	¥ 1,338	¥ 1,112	\$ 12,420

6. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

The amounts of financial instruments including carrying amounts on the accompanying interim consolidated balance sheet as of June 30, 2020 do not change significantly compared to those as of March 31, 2020.

7. DERIVATIVES

The amounts of derivatives including contract amounts as of June 30, 2020 do not change significantly compared to those as of March 31, 2020.

8. COMMITMENTS AND CONTINGENCIES

Contingent liabilities as of June 30, 2020 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees in the ordinary course of business	¥ 24,313	\$ 225,664

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 three-month periods ended June 30, 2020 and 2019.

	Millions of Yen					
	Three-Month Period Ended June 30, 2020					
	Reportable Segment					
	Leasing	International	Finance	Credit Card	Billing	Total
Revenue from external customers	¥ 68,645	¥ 2,807	¥ 2,565	¥ 1,270	¥ 41,414	¥ 116,704
Intersegment revenue or transfers	-	-	-	10,707	54	10,761
Total	¥ 68,645	¥ 2,807	¥ 2,565	¥ 11,978	¥ 41,468	¥ 127,465
Segment profit	¥ 3,445	¥ 859	¥ 614	¥ 788	¥ 3,493	¥ 9,202

	Thousands of U.S. Dollars					
	Three-Month Period Ended June 30, 2020					
	Reportable Segment					
	Leasing	International	Finance	Credit Card	Billing	Total
Revenue from external customers	\$ 637,144	\$ 26,058	\$ 23,813	\$ 11,794	\$ 384,388	\$1,083,200
Intersegment revenue or transfers	-	-	-	99,380	506	99,887
Total	\$ 637,144	\$ 26,058	\$ 23,813	\$ 111,175	\$ 384,895	\$1,183,087
Segment profit	\$ 31,982	\$ 7,974	\$ 5,704	\$ 7,322	\$ 32,426	\$ 85,410

	Millions of Yen					
	Three-Month Period Ended June 30, 2019					
	Reportable Segment					
	Leasing	International	Finance	Credit Card	Billing	Total
Revenue from external customers	¥ 65,184	¥ 8,993	¥ 3,394	¥ 1,359	¥ 40,296	¥ 119,229
Intersegment revenue or transfers	-	-	-	9,452	57	9,509
Total	¥ 65,184	¥ 8,993	¥ 3,394	¥ 10,811	¥ 40,353	¥ 128,738
Segment profit	¥ 3,437	¥ 1,211	¥ 467	¥ 885	¥ 829	¥ 6,832

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
	2020	2019	2020
Segment profit:			
Reportable segments total	¥ 9,202	¥ 6,832	\$ 85,410
Corporate expenses (Note)	(2,027)	(2,117)	(18,822)
Operating income in the interim consolidated statements of income	¥ 7,174	¥ 4,715	\$ 66,587

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

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

For the three-month periods ended June 30, 2020 and 2019, 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, 2020 and 2019, there is no applicable information to disclose.

Significant gain on bargain purchase by reportable segment

For the three-month periods ended June 30, 2020 and 2019, there is no applicable information to disclose.

10. SUBSEQUENT EVENTS

Implementation of absorption-type company split and share transfer

With the approval and adoption at the Annual Shareholders' Meeting held on June 19, 2020, the Company implemented an absorption-type company split (the "Company Split") as of July 1, 2020 with the NTT TC Leasing Co., Ltd., established by the Company as a wholly owned subsidiary (the "New Company"), where the rights and obligations of part of the leasing business and international business of the Company are assumed by the New Company. Following that, the Company transformed the New Company into a joint venture by transferring shares of the New Company equivalent to 50 percent of the total number of outstanding shares to Tokyo Century Corporation ("Tokyo Century").

(1) Purpose

As of February 6, 2020, Nippon Telegraph and Telephone Corporation (the parent company of the Company, "NTT") and Tokyo Century Corporation ("Tokyo Century") concluded a capital and business tie-up agreement.

As the first step in the capital and business tie-up, NTT and Tokyo Century decided to spin off part of the leasing business and international business of the Company, the core financial company in the NTT Group, and establish it as a joint venture of the three companies the Company, NTT, and Tokyo Century, in order to bolster and augment their leasing and financial business in Japan and other countries.

In specific terms, the New Company established by NTT Finance will first succeed to part of the leasing business and international business of NTT Finance by the method of absorption-type split upon spin-off, and then Tokyo Century will transform the New Company into a joint venture by acquiring shares in it. To ensure that the NTT Group and Tokyo Century have the same level of interest in the New Company, Tokyo Century intends to acquire shares equivalent to 50 percent of the total number of outstanding shares.

The two sides will endeavor to heighten the corporate value of the New Company by fusing the credibility and research and development powers of the NTT Group, the leasing business capabilities nurtured by the Company, and, Tokyo Century's know-how in the area of financial and other service solutions and its ability to provide them. At the same time, they are going to take approaches to effective use of the assets of the NTT Group.

(2) Outline of the Company Split

a. Legal form of the Company Split

Absorption-type company split with the Company as the splitting company and the New Company as the succeeding company.

b. Corporate name of the succeeding company

NTT TC Leasing Co., Ltd.

c. Description of succeeding businesses (reportable segment including the succeeding businesses)

Leasing business and part of international business

d. Accounting treatment

In accordance with "Accounting Standard for Business Combinations" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures," the Company Split will be treated as a transaction under common control.

e. Effective date

July 1, 2020

(3) Outline of the share transfer

a. Legal form of the share transfer

Transferring of shares in exchange for cash

b. Name of transferee company

Tokyo Century Corporation

c. Description of divested businesses (reportable segment including the divested businesses)

Leasing business and part of international business

d. Accounting treatment

The share transfer will be treated in accordance with “Accounting Standard for Business Divestitures” and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.”

e. Date of the share transfer

July 8, 2020

11. SUPPLEMENTAL INFORMATION

Effect of the Novel Coronavirus Disease (COVID-19)

The current spread of COVID-19 has a significant effect on the global economy and this critical condition seems to remain for a certain period of time. Although the Company estimated the allowance for doubtful receivables based on the assumption that credit costs will not much be affected by such condition, backed by our sound operating assets and enhanced group finance function. COVID-19 could have a material effect on the Company’s operating results in the following fiscal years, depending on the exposure to COVID-19 and the economic implications.

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