Consolidated Financial Statements

NTT FINANCE CORPORATION and Consolidated Subsidiaries

For the Years ended March 31,
2013 and 2012
Together with Independent Auditors' Report

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2013 and 2012

ASSETS	Millions of Yen 2013	Millions of Yen 2012	Thousands of U.S. Dollars (Note 1) 2013
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	¥ 184,988	¥ 80,443	$ 1,966,911
Leases receivable and investments in leases (Notes 12, 13, and 15)	357,404	389,164	3,800,148
Trade accounts receivable (Note 13):			
Installment sales (Note 15)	21,082	20,562	224,157
Loans (Notes 3 and 19)	658,254	450,480	6,998,979
Rents (Note 15)	18,246	19,791	194,003
Credit cards	39,995	34,605	425,252
Billing (Note 19)	325,728	-	3,463,349
Others (Note 3)	52,381	59,864	556,948
Allowance for doubtful receivables	(26,275)	(18,132)	(279,372)
Investments in venture businesses (Notes 4 and 13)	1,155	1,351	12,280
Securities (Notes 4 and 13)	2,381	6,210	25,316
Deferred tax assets (Note 11)	4,399	1,471	46,772
Other (Note 19)	43,821	9,207	465,933
Total current assets	1,683,564	1,055,019	17,900,733
PROPERTY AND EQUIPMENT, NET (Note 5):			
Leased assets (Note 15)	8,842	9,384	94,013
Assets held for own use (Note 6)	4,640	924	49,335
Total property and equipment, net	13,482	10,309	143,349
INTANGIBLE ASSETS—Assets held for own use (Note 6)	6,539	4,734	69,526
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4, 7 and 13)	47,405	37,281	504,040
Deferred tax assets (Note 11)	10,389	6,197	110,462
Other (Notes 3, 6, 7 and 13)	19,033	16,951	202,371
Allowance for doubtful receivables (Note 13)	(7,439)	(9,313)	(79,096)
Allowance for investment loss	(81)	(587)	(861)
Total investments and other assets	69,308	50,529	736,927
TOTAL ASSETS	¥ 1,772,894	¥ 1,120,593	$ 18,850,547

LIABILITIES AND NET ASSETS	Millions of Yen 2013	Millions of Yen 2012	Thousands of U.S. Dollars (Note 1) 2013
CURRENT LIABILITIES:			
Short-term borrowings (Notes 8 and 13)	¥ 50,712	¥ 41,643	$ 539,202
Current portion of long-term debt (Notes 8, 13 and 15)	93,482	90,659	993,960
Lease obligations (Notes 8, 12 and 13)	1,185	1,545	12,599
Trade notes and accounts payable (Note 13)	14,876	12,538	158,171
Accounts payable - other (Notes 13 and 19)	414,757	52,598	4,409,962
Accrued income taxes	8,961	1,905	95,279
Deposits received (Notes 13 and 19)	225,391	60,329	2,396,501
Deposits received from shareholders, directors or employees (Notes 13 and 19)	269,924	392,249	2,870,005
Other (Notes 8, 15 and 19)	29,433	26,915	312,950
Total current liabilities	1,108,726	680,388	11,788,686
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8, 13 and 15)	311,029	330,799	3,307,060
Lease obligations (Notes 8 and 13)	46	33	489
Accrued retirement benefits (Note 9)	7,108	5,002	75,576
Accrued directors' retirement benefits	58	40	616
Long-term deposits received from shareholders, directors or employees (Note 19)	240,400	10,400	2,556,087
Reserve for loss on business of affiliates	524	869	5,571
Asset retirement obligations	878	197	9,335
Other (Note 15)	5,348	5,257	56,863
Total long-term liabilities	565,394	352,602	6,011,632
Total liabilities	1,674,120	1,032,990	17,800,318
NET ASSETS:			
Shareholders' equity (Note 10):			
Common stock—authorized, 80,000 shares; issued, 51,960 shares in 2013 and 2012	16,770	16,770	178,309
Capital surplus	15,950	15,950	169,590
Retained earnings	65,093	55,149	692,110
Total shareholders' equity	97,814	87,870	1,040,021
Accumulated other comprehensive income/(loss):			
Unrealized gain on available-for-sale securities	799	237	8,495
Foreign currency translation adjustments	(476)	(1,135)	(5,061)
Total accumulated other comprehensive income/(loss)	323	(897)	3,434
Minority interests	635	629	6,751
Total net assets	98,773	87,602	1,050,217
TOTAL LIABILITIES AND NET ASSETS	¥ 1,772,894	¥ 1,120,593	$ 18,850,547

See notes to accompanying consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2013 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
REVENUE:			
Leases	¥ 161,566	¥ 184,070	$ 1,717,873
Installment sales	9,351	11,322	99,425
Credit cards	5,317	7,531	56,533
Loans (Note 19)	6,431	6,585	68,378
Billing (Note 19)	174,338	-	1,853,673
Other	15,771	15,316	167,687
TOTAL REVENUE	372,776	224,827	3,963,593
COSTS:			
Leases	141,384	162,179	1,503,285
Installment sales	8,978	10,824	95,459
Credit cards	18,940	3,690	201,382
Billing	56,048	-	595,938
Financing costs	4,870	5,629	51,780
Other	9,622	12,124	102,307
TOTAL COSTS	239,844	194,449	2,550,175
Gross profit	132,931	30,377	1,413,407
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	113,527	11,380	1,207,091
Operating income	19,404	18,996	206,315
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 19)	15	19	159
Interest expense (Note 19)	(376)	(522)	(3,997)
Bond issuance costs	(142)	(108)	(1,509)
Equity in earnings of affiliates	80	99	850
Foreign exchange gain/(loss)	103	(11)	1,095
Gain on bad debts recovered	183	203	1,945
Gain on investments in silent partnerships (Note 7)	-	110	-
Loss on retirement of assets held for own use	(88)	(27)	(935)
Impairment losses on long-lived assets (Note 6)	-	(75)	-
Compensation for office transfer	125	-	1,329
System migration expense	(1,217)	-	(12,939)
Loss on reversal of foreign currency translation adjustments due to liquidation of foreign subsidiary	(247)	-	(2,626)
Other—net	(176)	45	(1,871)
Other expenses—net	(1,741)	(265)	(18,511)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	17,663	18,730	187,804
INCOME TAXES (Note 11):			
Current	10,562	3,669	112,301
Deferred	(7,394)	(1,576)	(78,617)
Total income taxes	¥ 3,167	¥ 2,092	$ 33,673

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NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2013 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
INCOME BEFORE MINORITY INTERESTS	¥ 14,495	¥ 16,638	$ 154,120
MINORITY INTERESTS	6	29	63
NET INCOME	¥ 14,488	¥ 16,608	$ 154,045

	Yen		U.S. Dollars (Note 1)
	2013	2012	2013
PER SHARE OF COMMON STOCK:			
Weighted average number of shares outstanding	51,960	51,960	
Basic net income	¥ 278,844.39	¥ 319,648.58	$ 2,964.85
Cash dividends applicable to the year (Note 20)	68,572.00	87,472.00	729.10

See notes to accompanying consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended March 31, 2013 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
INCOME BEFORE MINORITY INTERESTS	¥ 14,495	¥ 16,638	$ 154,120
OTHER COMPREHENSIVE INCOME (Note 17):			
Net unrealized gain on available-for-sale securities	562	382	5,975
Foreign currency translation adjustments	548	(25)	5,826
Share of other comprehensive income/(loss) of affiliates accounted for using equity method	110	(41)	1,169
Total other comprehensive income	1,221	315	12,982
COMPREHENSIVE INCOME	¥ 15,716	¥ 16,954	$ 167,102
Comprehensive income attributable to:			
Owners of the parent	¥ 15,709	¥ 16,924	$ 167,028
Minority interests	6	29	63

See notes to accompanying consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2013 and 2012

	Millions of Yen									
		Shareholders' Equity				Accumulated Other Comprehensive Income/(Loss)				
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Total Shareholders' Equity	Unrealized Gain/(Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income/(Loss)	Minority Interests	Total Net Assets
BALANCE, APRIL 1, 2011	51,960	¥ 16,770	¥ 15,950	¥ 39,319	¥ 72,041	¥ (145)	¥ (1,068)	¥ (1,213)	¥ 584	¥ 71,412
Cash dividends, ¥15,000.00 per share				(779)	(779)					(779)
Net income				16,608	16,608					16,608
Net changes of items other than shareholders' equity						382	(66)	315	44	360
BALANCE, MARCH 31, 2012	51,960	16,770	15,950	55,149	87,870	237	(1,135)	(897)	629	87,602
Cash dividends, ¥87,472.00 per share				(4,545)	(4,545)					(4,545)
Net income				14,488	14,488					14,488
Net changes of items other than shareholders' equity						562	658	1,221	6	1,227
BALANCE, MARCH 31, 2013	51,960	¥ 16,770	¥ 15,950	¥ 65,093	¥ 97,814	¥ 799	¥ (476)	¥ 323	¥ 635	¥ 98,773

	Thousands of U.S. Dollars (Note 1)								
	Shareholders' Equity				Accumulated Other Comprehensive Income/(Loss)				
	Common Stock	Capital Surplus	Retained Earnings	Total Shareholders' Equity	Unrealized Gain/(Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income/(Loss)	Minority Interests	Total Net Assets
BALANCE, MARCH 31, 2012	$ 178,309	$ 169,590	$ 586,379	$ 934,290	$ 2,519	$ (12,068)	$ (9,537)	$ 6,687	$ 931,440
Cash dividends, $930.05 per share			(48,325)	(48,325)					(48,325)
Net income			154,045	154,045					154,045
Net changes of items other than shareholders' equity					5,975	6,996	12,982	63	13,046
BALANCE, MARCH 31, 2013	$ 178,309	$ 169,590	$ 692,110	$ 1,040,021	$ 8,495	$ (5,061)	$ 3,434	$ 6,751	$ 1,050,217

See notes to accompanying consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2013 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 17,663	¥ 18,730	$ 187,804
Adjustments for:			
Depreciation of leased assets and assets held for own use	3,307	1,482	35,162
Impairment losses on long-lived assets	-	75	-
Loss on retirement of leased assets and assets held for own use	286	234	3,040
Decrease in allowance for investment loss	(506)	(289)	(5,380)
Increase in accrued retirement benefits	2,105	242	22,381
Increase/(decrease) in allowance for doubtful receivables	6,288	(15,691)	66,858
Decrease in reserve for loss on business of affiliates	(345)	(572)	(3,668)
Interest and dividend income	(15)	(19)	(159)
Financing costs and interest expense	5,253	6,153	55,853
Foreign exchange (gain)/loss	(103)	11	(1,095)
Equity in earnings of affiliates	(80)	(99)	(850)
Gain on investments in silent partnerships	-	(110)	-
Bond issuance costs	142	108	1,509
System migration expense	1,217	-	12,939
Loss on reversal of foreign currency translation adjustments due to liquidation of foreign subsidiary	247	-	2,626
Decrease in leases receivable and investments in leases	32,078	75,106	341,073
Increase in trade accounts receivable	(522,492)	(29,695)	(5,555,470)
Decrease in investments in venture businesses	394	697	4,189
Increase in other securities to earn financial income for operating purpose	(4,315)	(7,391)	(45,879)
Purchases of leased assets	(440)	(315)	(4,678)
Increase in trade notes and accounts payable	2,337	2,664	24,848
Increase in accounts payable - other	362,089	6,259	3,849,962
Other—net	40,386	3,489	429,409
Subtotal	(54,501)	61,073	(579,489)
Interest and dividend income received	35	32	372
Interest expense paid	(5,117)	(6,365)	(54,407)
Income taxes paid	(3,689)	(4,769)	(39,223)
Payments for system migration expense	(1,148)	-	(12,206)
Net cash provided by operating activities—(Forward)	¥ (64,421)	¥ 49,969	$ (684,965)

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NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2013 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
Net cash provided by operating activities—(Forward)	¥ (64,421)	¥ 49,969	$ (684,965)
INVESTING ACTIVITIES:			
Payments into time deposits	(517)	-	(5,497)
Payments for purchases of investment securities	(1,199)	(1,079)	(12,748)
Proceeds from sales and redemption of investment securities	16	2	170
Payments for purchases of investments in affiliates	(9)	(205)	(95)
Payments for purchases of assets held for own use	(6,912)	(1,245)	(73,492)
Payments for purchases of investments in capital	(5,202)	-	(55,311)
Other—net	1,005	1,267	10,685
Net cash used in investing activities	(12,817)	(1,260)	(136,278)
FINANCING ACTIVITIES:			
Increase/(decrease) in short-term borrowings	9,068	(223,845)	96,416
Increase in long-term debt	66,513	89,414	707,208
Repayments of long-term debt	(95,287)	(114,362)	(1,013,152)
Decrease in payables associated with securitization of receivables	-	(9,000)	-
Cash dividends paid	(4,545)	(779)	(48,325)
(Decrease)/increase in deposits received	(24,809)	223,353	(263,785)
Proceeds from long-term deposits received	240,000	400	2,551,834
Repayments of long-term deposits received	(10,000)	-	(106,326)
Other—net	5	8	53
Net cash provided by/(used in) financing activities	180,945	(34,810)	1,923,923
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	837	(17)	8,899
NET INCREASE IN CASH AND CASH EQUIVALENTS	104,544	13,879	1,111,578
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	80,443	66,563	855,321
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 184,988	¥ 80,443	$ 1,966,911

See notes to accompanying consolidated financial statements.

1. BASIS OF PRESENTATION OF 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 (the “Companies Act”) 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 consolidated financial statements have been compiled from the 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 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. In addition, certain reclassifications of previously reported amounts have been made to conform to the current year presentation.

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 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 ¥94.05 to $1.00, the approximate rate of exchange at March 29, 2013, and then the translated amounts have been rounded down to the nearest thousand. As a result, the amounts shown in the accompanying 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation*****—**The consolidated financial statements as of March 31, 2013 include the accounts of the Company and its 13 significant subsidiaries (13 in 2012), such as NTTL Holdings, Inc. (together, the “Group”). APRICOT SHIP HOLDING S.A. is included in consolidated subsidiaries since its establishment during the year ended March 31, 2013. NTTL CAYMAN, LTD., which was a consolidated subsidiary until the year ended March 31, 2012, is excluded from consolidated subsidiaries due to its liquidation.

In addition, entities over which the Company has, directly or indirectly, a controlling financial interest are fully consolidated, and entities over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in two affiliates are accounted for by the equity method.

Investments in 92 non-consolidated subsidiaries (89 in 2012), including 77 operators under silent partnership agreements (77 in 2012) whose profit/loss and assets do not vest in the operators, are stated at cost, and no affiliate (one in 2012) is stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material. See Note 7 for description of silent partnerships.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is recognized as goodwill and is amortized on a straight-line basis over the reasonably estimated useful lives or 5 years, if useful lives are not reliably determined. However, insignificant goodwill is charged to income when incurred.

The fiscal year-ends of two consolidated silent partnerships are March 15 and 25, respectively. The financial statements of such partnerships as of and for the year ended their respective closing dates are used for consolidation and necessary adjustments were made to the consolidated financial statements to reflect any significant transactions between their respective fiscal year-ends and March 31. The fiscal year-end of one consolidated silent partnership is September 30. Pro forma financial statements as of March 31 are prepared in a manner that is substantially same as the fiscal year-end financial statements and used for consolidation.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. ***Cash Equivalents—***Cash equivalents are short-term investments that are readily convertible into cash and that are not exposed to significant risk of changes in value. All cash equivalents mature or become due within three months of the date of acquisition.

c. ***Securities, Investment Securities and Investments in Venture Businesses—***Securities, investment securities and investments in venture businesses are classified and accounted for, depending on management's intent, as follows: (i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost, (ii) available-for-sale securities, which are not classified as held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets. Costs of securities sold are determined by the moving-average method and (iii) non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

d. ***Property and Equipment—***Property and equipment are stated at cost less accumulated depreciation. Depreciation of assets held for own use is computed using the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings held for own use acquired on or after April 1, 1998 (excluding facilities attached to buildings). The range of useful lives is principally from 15 to 47 years for buildings, and from 4 to 20 years for furniture and fixtures. Leased assets are depreciated using the declining-balance method except for those held by consolidated silent partnerships engaged in the aircraft leasing business, which are depreciated over the lease terms to a residual value using the straight-line method.

e. ***Intangible Assets—***Assets held for own use are stated at cost less accumulated amortization, which is calculated by the straight-line method. Software for internal use is amortized using the straight-line method over an estimated useful life of 5 years.

f. ***Long-Lived Assets—***The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured at the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. ***Bond Issuance Costs—***Bond issuance costs are charged to expense as incurred.

h. ***Allowance for Doubtful Receivables—***Allowance for doubtful receivables is provided for at an amount sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful receivables such as due from debtors likely to become bankrupt and/or from debtors in bankruptcy and reorganization based on the examination on their financial conditions and the amount calculated based on the historical rate of losses for the other regular receivables.

i. ***Allowance for Investment Loss—***Allowance for investment loss is provided for at an amount sufficient to cover probable losses on investments in securities, taking into account financial conditions of issuers as well as recoverability of investments.

j. ***Reserve for Loss on Business of Affiliates—***Reserve for loss on business of affiliates is provided for at an amount sufficient to cover the Company's share of reasonably estimated equity losses of affiliates to be incurred in the future, taking into account financial conditions and results of operations of affiliates.

k. ***Retirement Benefit Plan—***The Company has defined-benefit pension plans as well as a severance indemnity plan. Accrued retirement benefits are provided for based on the estimated amounts of projected benefit obligations and the fair value of plan assets at the balance sheet date. Actuarial gains or losses are amortized by the straight-line method over periods based on the average remaining years of service of the employees in the fiscal year such gains or losses occur, commencing from the following fiscal year. Prior service costs are fully charged to income when incurred.

(Change in accounting policy)
Change in amortization method of actuarial differences
Previously, actuarial gains or losses of the Company were fully charged to income when incurred. From the fiscal year ended March 31, 2013, the Company changed the accounting policy into the one described above.

This change was made in order to more appropriately reflect the amount of retirement benefits that arose in compensation for the services rendered by the employees in the consolidated financial statements by recognizing actuarial gains or losses over the average remaining years of service of the employees, since (i) it has become necessary to stabilize costs related to retirement benefits that are one of the bases for calculating fees for billing services in light of public nature of billing and collection services of communication service charges, which was launched in July 2012, and (ii) it was expected that actuarial gains or losses would significantly increase or decrease as the number of employees increased by about 6,800 to about 8,100 as of March 31, 2013 compared to as of March 31, 2012.

This change is not applied retrospectively to the consolidated financial statements in prior periods because the effects of this change cannot be exactly calculated as the average remaining years of service of the employees pertaining to a contract-type corporate pension plan exceed 10 years of the statutory preservation period of books and because the effects are insignificant even when calculated using the available data.
As a result of this change, retirement benefit costs decreased by ¥1,600 million ($17,012 thousand), and operating income and income before income taxes and minority interests increased by ¥1,600 million ($17,012 thousand), respectively, in comparison to the case where the previous method was applied.

Accrued directors' retirement benefits are provided for at an estimated amount in accordance with internal policies which would be payable if all directors were to retire as of the balance sheet date.

l. ***Asset Retirement Obligations—***The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized in the period when a reasonable estimate of the asset retirement obligation can be made.

Upon initial recognition of liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

m. ***Revenue Recognition on Finance Lease Transactions—***Revenues from finance lease contracts and corresponding costs are recognized at the time of actual collection of the payments.

n. ***Income Taxes—***Provision for income taxes is computed based on taxable income and charged to income on an accrual basis. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

o. ***Foreign Currency Transactions—***All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statement of income to the extent that they are not hedged by foreign exchange forward contracts.

p. ***Foreign Currency Financial Statements***—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of net assets.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate for a year.

q. ***Derivatives and Hedge Accounting***—All derivatives, except for certain contracts described below, are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income. For derivatives which qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until the gains or losses on the corresponding hedged items are recognized in income.

Assets and liabilities denominated in foreign currencies and hedged by foreign exchange forward contracts which meet specific matching criteria are translated at the foreign exchange rate stipulated in the contracts. Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at fair value, but the differentials paid or received under the swap agreements are recognized and included in interest expense or income.

r. ***Per Share Information***—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retrospectively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if stock acquisition rights were exercised into common stock. Diluted net income per share of common stock assumes full exercise of the outstanding stock acquisition rights at the beginning of the year (or at the time of grant).

Diluted net income per share is not disclosed because no potentially dilutive securities are outstanding.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

3. LOANS AND OTHERS

Loans and others as of March 31, 2013 and 2012 include claims to borrowers in bankruptcy and past due loans as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Claims to borrowers in bankruptcy (Note a)	¥ 1,221	¥ 582	$ 12,982
Past due loans (Note b)	6,865	8,241	72,993
Delinquent loans contractually past due three months or more (Note c)	-	-	-
Restructured loans (Note d)	3,114	1,380	33,110

Notes:
a. Claims to borrowers in bankruptcy represent non-accrual loans which are defined in Article 96, Paragraph (1) (iii) of the Order for Enforcement of the Corporation Tax Act of Japan.
b. Past due loans are non-accrual loans other than "claims to borrowers in bankruptcy" and loans for which interest payments are deferred in order to assist the financial recovery of borrowers in financial difficulty.
c. Delinquent loans contractually past due three months or more are loans for which the payment of principal and/or interest was contractually past due three months or more, excluding "claims to borrowers in bankruptcy" and "past due loans."
d. Restructured loans are loans of which the Group restructured the terms, such as a reduction of the original interest rate, forbearance of interest and/or principal payments, an extension

of the maturity date or debt forgiveness in order to support borrowers in their financial recovery or restructuring, excluding "claims to borrowers in bankruptcy," "past due loans" and "delinquent loans contractually past due three months or more" mentioned above.

4. SECURITIES, INVESTMENT SECURITIES AND INVESTMENTS IN VENTURE BUSINESSES

Acquisition cost and fair value of available-for-sale securities as of March 31, 2013 and 2012 are as follows:

	Millions of Yen		
	2013		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	¥ 395	¥ 205	¥ 189
Debt securities	29,154	28,484	669
Others	9,009	8,468	541
Sub-total	38,559	37,159	1,400
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	4,766	4,953	(187)
Sub-total	4,766	4,953	(187)
Total	¥ 43,325	¥ 42,112	¥ 1,213

	Thousands of U.S. Dollars		
	2013		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	$ 4,199	$ 2,179	$ 2,009
Debt securities	309,984	302,860	7,113
Others	95,789	90,037	5,752
Sub-total	409,984	395,098	14,885
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	50,675	52,663	(1,988)
Sub-total	50,675	52,663	(1,988)
Total	$ 460,659	$ 447,761	$ 12,897

Unlisted equity securities of ¥6,120 million ($65,071 thousand) and investments in partnerships of ¥1,296 million ($13,779 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		
	2012		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	¥ 251	¥ 202	¥ 49
Debt securities	25,724	25,350	374
Others	4,549	4,393	156
Sub-total	30,525	29,946	579
Securities with fair values not exceeding acquisition costs or amortized costs:			
Equity securities	3	4	(1)
Debt securities	7,177	7,310	(132)
Sub-total	7,181	7,315	(133)
Total	¥ 37,707	¥ 37,261	¥ 446

Unlisted equity securities of ¥5,094 million and investments in partnerships of ¥1,848 million are excluded from the above table because they do not have readily determinable market values and their fair values are not practically estimable.

Securities sold during the years ended March 31, 2013 and 2012 are as follows:

	Millions of Yen		
	2013		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	¥ 97	¥ 85	¥ 4

	Thousands of U.S. Dollars		
	2013		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	$ 1,031	$ 903	$ 42

	Millions of Yen		
	2012		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	¥ 321	¥ 200	¥ 51

If the fair value of a security as of the fiscal year-end declines 50% or more from its acquisition cost, the difference between the fair value and the acquisition cost is recognized as loss on impairment.

In addition, if the fair value of a security as of the fiscal year-end declines 30% to 50% from its acquisition cost, the necessary amount based on the recoverability is recognized as loss on impairment.

Losses on impairment of available-for-sale securities and investments in affiliates for the year ended March 31, 2013 were ¥346 million ($3,678 thousand) and ¥0 million ($0 thousand), respectively. Losses on impairment of available-for-sale securities and investments in affiliates for the year ended March 31, 2012 were ¥328 million and ¥42 million, respectively.

As of March 31, 2013, debt securities held by the Group to earn financial income for operating purpose are included in securities and investment securities in the amount of ¥2,381 million ($25,316 thousand) and ¥40,548 million ($431,132 thousand), respectively. As of March 31, 2012, debt securities held by the Group to earn financial income are included in securities and investment securities in the amount of ¥6,210 million and ¥31,241 million, respectively.

5. PROPERTY AND EQUIPMENT, NET

Accumulated depreciation of leased assets and assets held for own use as of March 31, 2013 and 2012 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Leased assets	¥ 4,113	¥ 5,118	$ 43,732
Assets held for own use	1,541	1,206	16,384

6. LONG-LIVED ASSETS

Asset groupings of business assets for the impairment test are based on the business segment used for managerial accounting purposes. For the year ended March 31, 2013, there is no applicable information to disclose. The Group recognized an impairment loss on tangible and intangible fixed assets held for own use and other under investments and other assets attributed to the credit card business, amounting to ¥75 million for the year ended March 31, 2012, due to significant underperformance of expected and/or historical cash flows. These losses are included in other expenses in the accompanying consolidated statements of income.

7. INVESTMENTS IN NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in non-consolidated subsidiaries and affiliates as of March 31, 2013 and 2012 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Investment securities	¥ 202	¥ 194	$ 2,147
Other under investments and other assets	947	776	10,069

Other under investments and other assets includes investments in silent partnerships. Silent partnerships are Japanese bilateral contracts governed by the Commercial Code of Japan between silent partners and an operator.

Under a silent partnership agreement, silent partners provide funds for partnership business and are entitled to be allocated all profits or losses arising from the business. However, the silent partners do not have any interest or right to the assets of the partnership business. Also, the silent partners shall have no authority, control over, or interest in the partnership business except participating in the allocated profits or losses.

The operator operates the partnership business for the benefit of the silent partners and makes distributions of profits and losses to the silent partners in accordance with the partnership agreement.

8. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debts as of March 31, 2013 and 2012 consisted of the following:

	Interest Rate (%) (Notes a, b and c)	Millions of Yen 2013	Millions of Yen 2012	Thousands of U.S. Dollars 2013
Short-term debt:				
Short-term bank loans	0.288	¥ 50,712	¥ 41,643	$ 539,202
Short-term borrowings		50,712	41,643	539,202
Lease obligations, current portion	-	628	703	6,677
Payables associated with securitization of receivables	0.189	11,000	11,000	116,959
Deposits received from NTT Group companies, including current portion of Long-term deposits received from NTT Group companies	0.109	422,081	446,874	4,487,836
Long-term debt:				
Long-term borrowings	1.015	200,094	216,492	2,127,527
Unsecured bonds	0.36 – 1.69	164,979	204,967	1,754,162
Bond issued under Euro Medium Term Note Program	1.50	39,438	-	419,330
Sub-total		404,511	421,459	4,301,020
Less current portion		93,482	90,659	993,960
Long-term debt		311,029	330,799	3,307,060
Lease obligations, excluding current portion	-	603	875	6,411
Long-term deposits received from NTT Group companies	0.285	240,400	10,400	2,556,087

Notes:
a. Interest rate represents a weighted-average rate of interest on the outstanding balance of debt (excluding bonds and finance lease obligations) as of March 31, 2013.
b. Interest rate for unsecured bonds represents the range of annual coupon rates on series 32nd to 41st bonds, rounded down to the nearest hundredth percent.
c. Interest rate for finance lease obligations is not disclosed since lease obligations are recorded on the consolidated balance sheet in the amount not deducting the amount equivalent to interest that is included in the total lease payment.

The aggregate annual maturities of long-term borrowings, bonds payable, lease obligations and long-term deposits received from NTT Group companies as of March 31, 2013 are summarized as follows:

	Millions of Yen					
March 31, 2013	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Long-term borrowings	¥ 53,483	¥ 43,202	¥ 34,752	¥ 27,606	¥ 7,511	¥ 33,537
Bonds payable	39,999	39,994	44,994	39,990	39,438	-
Lease obligations	628	246	95	69	39	153
Long-term deposits received from NTT Group companies	10,000	-	240,400	-	-	-

March 31, 2013	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Long-term borrowings	$ 568,665	$ 459,351	$ 369,505	$ 293,524	$ 79,861	$ 356,586
Bonds payable	425,295	425,241	478,405	425,199	419,330	-
Lease obligations	6,677	2,615	1,010	733	414	1,626
Long-term deposits received from NTT Group companies	106,326	-	2,556,087	-	-	-

9. RETIREMENT BENEFITS

Accrued retirement benefits for employees as of March 31, 2013 and 2012 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Projected benefit obligation	¥ (16,440)	¥ (8,625)	$ (174,800)
Fair value of pension assets	7,731	3,622	82,200
Unrecognized actuarial losses	1,600	-	17,012
Net accrued retirement benefits	¥ (7,108)	¥ (5,002)	$ (75,576)

Retirement benefit costs for the years ended March 31, 2013 and 2012 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Service cost	¥ 1,672	¥ 420	$ 17,777
Interest cost	286	200	3,040
Expected return on plan assets	(83)	(78)	(882)
Amortization of actuarial differences	-	10	-
Net periodic retirement benefit costs	¥ 1,875	¥ 553	$ 19,936

The discount rate used by the Company is 1.5% and 2.5% for the years ended March 31, 2013 and 2012, respectively. The rates of expected return on plan assets are from 2.0% to 2.5% for the years ended March 31, 2013 and 2012, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Previously, actuarial gains or losses were fully charged to income when incurred. From the fiscal year ended March 31, 2013, the Company changed the accounting policy into the one in which actuarial gains or losses are amortized by the straight-line method over 9 to 15 years based on the average remaining years of service of the employees in the fiscal year such gains or losses occur, commencing from the following year. Prior service costs are fully charged to income when incurred.

10. EQUITY

Japanese companies are subject to the Companies Act. The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also permits companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of net assets. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Treasury stock acquisition rights are presented as a separate component of net assets or deducted directly from stock acquisition rights.

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in statutory tax rates of approximately 37.81% and 40.55% for the years ended March 31, 2013 and 2012, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences which resulted in net deferred tax assets as of March 31, 2013 and 2012 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Deferred tax assets:			
Current:			
Allowance for doubtful receivables	¥ 2,127	¥ 4,505	$ 22,615
Accrued enterprise taxes	749	151	7,963
Accrued bonuses	872	163	9,271
Accounts payable - other	213	195	2,264
Loss on valuation of investments in venture businesses	531	614	5,645
Unearned profit on installment sales	199	264	2,115
Effect of change in finance lease accounting	908	-	9,654
Unrealized loss on available-for-sale securities	29	-	308
Others	217	186	2,307
Sub-total	5,852	6,081	62,222
Valuation allowance	(1,451)	(4,220)	(15,427)
Total deferred tax assets - current	4,400	1,860	46,783
Noncurrent:			
Allowance for doubtful receivables	7,458	3,071	79,298
Accrued retirement benefits	2,656	1,771	28,240
Depreciation on leased assets	-	49	-
Impairment loss	201	333	2,137
Loss on valuation of investment securities	36	322	382
Allowance for investment loss	89	211	946
Reserve for loss on business of affiliates	198	329	2,105
Others	1,352	1,314	14,375
Sub-total	11,993	7,403	127,517
Valuation allowance	(877)	(933)	(9,324)
Total deferred tax assets - noncurrent	11,115	6,469	118,181
Total deferred tax assets	15,516	8,330	164,976
Deferred tax liabilities:			
Current:			
Effect of change in finance lease accounting	-	(384)	-
Unrealized gain on available-for-sale securities	-	(3)	-
Others	(0)	(0)	(0)
Total deferred tax liabilities - current	(0)	(389)	(0)
Noncurrent:			
Unrealized gain on available-for-sale securities	(467)	(231)	(4,965)
Others	(259)	(40)	(2,753)
Total deferred tax liabilities - noncurrent	(726)	(271)	(7,719)
Total deferred tax liabilities	(726)	(660)	(7,719)
Net deferred tax assets	¥ 14,789	¥ 7,669	$ 157,246

Net deferred tax assets for the years ended March 31, 2013 and 2012 were included in the following accounts:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Current assets	¥ 4,399	¥ 1,471	$ 46,772
Investments and other assets	10,389	6,197	110,462

Reconciliation between the statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2013 and 2012 is as follows:

	2013	2012
Statutory tax rate	37.81%	40.55%
Entertainment expenses permanently not deductible for income tax purposes	0.16	0.06
Tax on undistributed profits for a family corporation	0.42	0.41
Per capita inhabitant tax	0.80	0.21
Changes in valuation allowance	(15.61)	(33.99)
Equity in earnings of affiliates	(0.17)	(0.21)
Minority interests	(0.01)	(0.06)
Adjustment to deferred tax assets due to changes in tax rate	(0.41)	4.23
Tax credits granted for promoting employment	(3.96)	-
Others	(1.09)	(0.03)
Actual effective tax rate	17.93%	11.16%

12. LEASES

Lease transactions as lessor

Information relating to finance leases of the Group as lessor for the years ended March 31, 2013 and 2012 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Lease payments receivable	¥ 314,645	¥ 340,645	$ 3,345,507
Estimated residual value	5,351	5,835	56,895
Unearned interest income	(35,717)	(34,496)	(379,766)
Investments in leases	¥ 284,279	¥ 311,984	$ 3,022,636

The aggregate annual maturities of leases receivable and investments in leases as of March 31, 2013 and 2012 are summarized as follows:

	Millions of Yen					
March 31, 2013	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Leases receivable	¥ 25,953	¥ 18,645	¥ 12,178	¥ 9,231	¥ 5,974	¥ 4,730
Investments in leases	97,923	74,748	55,028	38,074	24,001	24,868

	Thousands of U.S. Dollars					
March 31, 2013	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Leases receivable	$ 275,948	$ 198,245	$ 129,484	$ 98,149	$ 63,519	$ 50,292
Investments in leases	1,041,180	794,768	585,093	404,827	255,194	264,412

	Millions of Yen					
March 31, 2012	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Leases receivable	¥ 27,258	¥ 21,664	¥ 14,003	¥ 7,790	¥ 3,944	¥ 4,332
Investments in leases	109,971	83,822	60,732	40,066	23,190	22,862

Future minimum lease payments to be received under non-cancelable operating leases are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Due in 1 year or less	¥ 1,011	¥ 1,225	$ 10,749
Due after 1 year	3,449	3,224	36,671
Total	¥ 4,460	¥ 4,450	$ 47,421

Information on sub-lease transactions for the years ended March 31, 2013 and 2012 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Leases receivable and investments in leases	¥ 1,108	¥ 1,435	$ 11,780
Lease obligations	1,156	1,509	12,291

Lease transactions as lessee

Future minimum lease payments under non-cancelable operating leases are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Due in 1 year or less	¥ 393	¥ 276	$ 4,178
Due after 1 year	792	693	8,421
Total	¥ 1,186	¥ 969	$ 12,610

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group provides a wide range of financial services, including the areas of leasing, loans, investments and credit cards. Financial assets held by the Group mainly consist of installment sales receivable, leases receivable and investments in leases, loans receivable, rents receivable, credit card receivables, other receivables, investments in venture businesses, securities and investment securities. In order to avoid concentration of credit risk, the Group diversifies its exposure across counterparties and industries. In addition, in order to maintain quality of operating receivables, the Group regularly measures the amount of credit risk (unexpected credit loss) defined as the difference between credit VaR at a certain confidence level and expected credit loss.

The Group raises funds through a variety of methods, including bank borrowings, and issuance of corporate bonds and commercial papers. In managing its funding, the Group periodically adjusts the balance between short-term and long-term products, taking market conditions into account, and intends to further diversify its financing methods and counterparties and obtains credit facilities from various financial institutions.

In order to quickly respond to changes in financial markets, the Group aims to optimize the relationship between sources and uses of funds, taking into account market trends in various interest rates and foreign exchange rates and implementing appropriate asset liability management ("ALM"). In line with this goal, the Group enters into various derivative transactions, most of which are for hedging purposes; Derivative transactions for non-hedging purposes are internally examined in advance, and those for speculative purposes are not permitted.

(2) Nature and Extent of Risks Arising from Financial Instruments

Installment sales receivable, leases receivable and investments in leases, loans receivable, rents receivable, credit card receivables and other receivables held by the Group are exposed to credit loss due to counterparties' default and fluctuations in interest rates. Moreover, for loans receivable, credit risk is concentrated in NIPPON TELEGRAPH AND TELEPHONE CORPORATION ("NTT") and its group companies (together, the "NTT Group"), which accounted for approximately 76% and 72% of loans receivable as of March 31, 2013 and 2012, respectively. Consequently, changes in business environment surrounding NTT Group could have an adverse effect on the financial condition of the Group.

Investments in venture businesses, and securities and investment securities mainly consist of equity securities, debt securities and investments in partnerships. These securities are held to maturity, for capital gain or to promote business relationships, which are exposed to credit risk of issuers, interest rate risk and market risk, respectively.

Bank borrowings, corporate bonds and commercial papers are exposed to liquidity risk, i.e., the risk the Group cannot meet its contractual obligations in full on maturity dates for such reasons as the Group would be unable to access financial markets under certain circumstances. Furthermore, the Group uses funds based on variable rates, which are exposed to risk resulting from fluctuations in interest rates. In order to avoid such risk, the Group uses interest rate swaps for certain financing transactions.

Assets and liabilities denominated in foreign currencies are exposed to foreign currency risk. The Group manages each transaction to mitigate such risk by matching the timing and amount of cash flows attributed to these assets and liabilities or by using currency swap contracts.

In addition to hedging derivatives such as interest rate swaps and currency swaps, the Group uses other derivative transactions; The Group invests in hybrid financial instruments which incorporate credit derivatives, as a part of its fund management activities, and uses foreign exchange forward contracts to meet specific customer needs. Moreover, credit derivatives could be used to avoid credit risk of assets held by the Group, if appropriate. Hedging derivatives are exposed to risk associated with fluctuations in market prices and risk attributable to counterparties' default, but the Group considers that neither market risk nor credit risk is significant because fair value of such derivatives is highly correlated with that of hedged item and the counterparty is limited to creditworthy financial institutions with limited risk of default. As for hybrid financial instruments which incorporate credit derivatives, even though such instruments are exposed to market risk as well as credit risk of reference entities, the Group regards that the effect of such risk on its overall business performance is limited. Foreign exchange forward contracts for specific customers are also exposed to market risk and credit risk related to counterparties' default, but the risk to the Group is minimal because the Group enters into such transactions only after ascertaining that it would never be responsible for the resulting loss, if any.

(3) Risk Management for Financial Instruments

Credit risk management

The Group manages credit risk in accordance with internal rules for each business segment. For each credit transaction, the Group has implemented such procedures as performing ex-ante evaluation and ex-post monitoring of customer credit as well as setting credit limit, managing related information, assigning internal credit rating, securing collateral or guarantees, and addressing troubled receivables, if any. The Credit Analysis Department and the Credit Administration Department as well as relevant sales departments and branches are responsible for such credit management. In addition, the Integrated Risk Management Office, which is responsible for overall portfolio management of financial instruments, measures the amount of credit risk (unexpected credit loss) and regularly reports the results to the Integrated Risk Management Committee.

Liquidity risk management on financing

The Group manages its liquidity risk, taking market conditions into account, by adjusting the balance of financial products between long-term and short-term on a regular basis, using the ALM technique, by diversifying financing methods and counterparties and by obtaining credit facilities from various financial institutions.

Market risk management

Risks of interest rate fluctuations
The Finance Department comprehensively monitors interest rates and terms of financial assets and liabilities on a continual basis, using the ALM technique and performing gap analysis and sensitivity analysis, and reports the results to the Executive Committee on a monthly and quarterly basis.

Risk of exchange rate fluctuations
Each transaction denominated in foreign currency is managed to avoid foreign currency risk by matching the timing and amount of cash flows attributed to these assets and liabilities or by using currency swap contracts.

Risks of price fluctuations
Securities and investment securities, which are exposed to risk of price fluctuations, are managed through periodic monitoring of their fair values and the financial positions of issuers.

Quantitative information on market risk
Installment sales receivable, leases receivable and investments in leases, loans receivable, long-term borrowings, corporate bonds and interest rate swaps are exposed to interest rate risk.

Effects of interest rate fluctuations on these financial instruments, which are measured based on the maximum interest rate change observed during a certain period after the zero-interest-rate policy ended, are used in quantitative analysis for managing interest rate risk. In measuring the effects, financial instruments subject to this analysis are classified into two kinds: those with fixed rates and with variable rates. Each of them is further broken down by maturity in order to apply relevant interest rate change corresponding to maturity. Increase in interest rate by one basis point (0.01%) as of March 31, 2013 and 2012 is estimated to decrease market value of the Group's net financial assets by ¥85 million ($903 thousand) and ¥65 million, respectively, keeping all other parameters fixed. This analysis does not consider correlation between interest rate and other parameters.

Management of derivative transactions

The Group enters into derivative transactions in accordance with its internal "Derivative Transaction Rule," which governs a transaction process including a negotiation of terms and conditions, execution of an agreement and designation of a hedge relationship.

Specifically for a derivative transaction not qualifying for hedge accounting, the nature of associated risk, management techniques of risk and methods to estimate fair value are internally examined before entering the transaction.

Moreover, the contract amount, fair value, details of each derivative transaction and effectiveness of hedging instruments are reported to the Executive Committee quarterly.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. As the rational valuation techniques include certain assumptions, the results of valuation may differ if different assumptions are applied. Carrying amount of derivative transactions in the following table does not represent market risk.

(a) Fair value of financial instruments

The carrying amounts of financial instruments presented in the consolidated balance sheets, their fair values and the unrealized gains or losses as of March 31, 2013 and 2012 are as follows. Financial instruments whose fair value cannot be reliably determined are not included in the following table; Information on such instruments is presented in the table (b) below.

March 31, 2013	Millions of Yen Carrying Amount	Millions of Yen Fair Value	Millions of Yen Unrealized Gain/(Loss)
Cash and cash equivalents	¥ 184,988	¥ 184,988	¥ -
Installment sales receivable	20,421		
Less: allowance for doubtful receivables (Note a)	(460)		
	19,961	20,067	106
Leases receivable and investments in leases	357,320		
Less: allowance for doubtful receivables (Note a)	(5,402)		
	351,917	354,035	2,118
Loans receivable	658,254		
Less: allowance for doubtful receivables (Note a)	(2,403)		
	655,850	656,338	487
Other receivables	52,381		
Less: allowance for doubtful receivables (Note a)	(1,628)		
	50,752	50,909	156
Rents receivable	18,246		
Less: allowance for doubtful receivables (Note a)	(186)		
	18,060	18,120	60
Credit card receivables	39,995		
Less: allowance for doubtful receivables (Note a)	(1,332)		
	38,663	38,663	-
Billing receivables	325,728		
Less: allowance for doubtful receivables (Note a)	(14,845)		
	310,883	310,883	-
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	43,325	43,325	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	8,879		
Less: allowance for doubtful receivables (Note a)	(7,439)		
	1,439	1,439	-
Total assets	¥ 1,675,842	¥ 1,678,767	¥ 2,928
Trade notes and accounts payable	¥ 14,876	¥ 14,876	¥ -
Short-term borrowings	50,712	50,712	-
Lease obligations	1,232	1,234	2
Accounts payable - other	414,757	414,758	1
Deposits received	225,391	225,391	-
Deposits received from shareholders, directors or employees	510,324	510,324	-
Bonds payable	204,417	213,805	9,388
Long-term borrowings	200,094	202,908	2,814
Total liabilities	¥ 1,621,806	¥ 1,634,013	¥ 12,206
Derivative transactions:			
Not qualifying for hedge accounting (Note b)	¥ (3)	¥ (3)	¥ -
Qualifying for hedge accounting (Note c)	391,098	8,407	-
Total derivative transactions	¥ -	¥ 8,404	¥ -

March 31, 2013	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	$ 1,966,911	$ 1,966,911	$ -
Installment sales receivable	217,129		
Less: allowance for doubtful receivables (Note a)	(4,891)		
	212,238	213,365	1,127
Leases receivable and investments in leases	3,799,255		
Less: allowance for doubtful receivables (Note a)	(57,437)		
	3,741,807	3,764,327	22,519
Loans receivable	6,998,979		
Less: allowance for doubtful receivables (Note a)	(25,550)		
	6,973,418	6,978,607	5,178
Other receivables	556,948		
Less: allowance for doubtful receivables (Note a)	(17,309)		
	539,627	541,297	1,658
Rents receivable	194,003		
Less: allowance for doubtful receivables (Note a)	(1,977)		
	192,025	192,663	637
Credit card receivables	425,252		
Less: allowance for doubtful receivables (Note a)	(14,162)		
	411,089	411,089	-
Billing receivables	3,463,349		
Less: allowance for doubtful receivables (Note a)	(157,841)		
	3,305,507	3,305,507	-
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	460,659	460,659	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	94,407		
Less: allowance for doubtful receivables (Note a)	(79,096)		
	15,300	15,300	-
Total assets	$ 17,818,628	$ 17,849,728	$ 31,132
Trade notes and accounts payable	158,171	158,171	-
Short-term borrowings	539,202	539,202	-
Lease obligations	13,099	13,120	21
Accounts payable - other	4,409,962	4,409,973	10
Deposits received	2,396,501	2,396,501	-
Deposits received from shareholders, directors or employees	5,426,092	5,426,092	-
Bonds payable	2,173,492	2,273,312	99,819
Long-term borrowings	2,127,527	2,157,448	29,920
Total liabilities	$ 17,244,082	$ 17,373,875	$ 129,782
Derivative transactions:			
Not qualifying for hedge accounting (Note b)	$ (31)	$ (31)	$ -
Qualifying for hedge accounting (Note c)	4,158,405	89,388	-
Total derivative transactions	$ -	$ 89,356	$ -

Notes:
a. General allowance for doubtful receivables and special allowance for specific receivables corresponding to respective operating receivables are deducted.
b. Receivables and payables arising from derivative transactions are presented on a net basis, and numbers in parenthesis denote net payables.
c. The carrying amount of derivative transactions represents their contract amount.

March 31, 2012	Millions of Yen Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	¥ 80,443	¥ 80,443	¥ -
Installment sales receivable	19,873		
Less: allowance for doubtful receivables (Note a)	(879)		
	18,993	19,125	132
Leases receivable and investments in leases	389,054		
Less: allowance for doubtful receivables (Note a)	(8,941)		
	380,113	384,273	4,160
Loans receivable	450,480		
Less: allowance for doubtful receivables (Note a)	(3,768)		
	446,711	449,294	2,583
Other receivables	59,864		
Less: allowance for doubtful receivables (Note a)	(1,851)		
	58,012	58,044	32
Rents receivable	19,791		
Less: allowance for doubtful receivables (Note a)	(332)		
	19,458	19,464	5
Credit card receivables	34,605		
Less: allowance for doubtful receivables (Note a)	(2,355)		
	32,249	32,249	-
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	37,707	37,707	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	11,192		
Less: allowance for doubtful receivables (Note a)	(9,313)		
	1,878	1,878	-
Total assets	¥ 1,075,568	¥ 1,082,482	¥ 6,913
Trade notes and accounts payable	¥ 12,538	¥ 12,538	¥ -
Short-term borrowings	41,643	41,643	-
Lease obligations	1,579	1,597	18
Accounts payable - other	52,598	52,599	1
Deposits received	60,329	60,329	-
Deposits received from shareholders, directors or employees	402,649	402,649	-
Bonds payable	204,967	206,885	1,917
Long-term borrowings	216,492	218,969	2,477
Total liabilities	¥ 992,798	¥ 997,213	¥ 4,414
Derivative transactions:			
Not qualifying for hedge accounting (Note b)	¥ 30	¥ 30	¥ -
Qualifying for hedge accounting (Note c)	144,686	(773)	-
Total derivative transactions	¥ -	¥ (743)	¥ -

Notes:
a. General allowance for doubtful receivables and special allowance for specific receivables corresponding to respective operating receivables are deducted.
b. Receivables and payables arising from derivative transactions are presented on a net basis, and numbers in parenthesis denote net payables.
c. The carrying amount of derivative transactions represents their contract amount.

Assets

Cash and Cash Equivalents, Credit Card Receivables, and Billing Receivables

The carrying amounts of these items approximate their fair values because of their short maturities.

Installment Sales Receivable, and Leases Receivable and Investments in Leases

The fair values of these items are calculated by discounting contractual cash flows using interest rates currently available to the Group for similar transactions. The carrying amount of installment sales receivable is presented net of unearned profit included in liabilities in the accompanying consolidated balance sheets. Similarly, the carrying amounts of leases receivable and investments in leases are presented net of lease payments received in advance.

The carrying amounts of doubtful receivables net of allowance for such accounts approximate their fair values because allowance for such accounts is estimated based on collectible amounts through liquidation of collateral and/or realization of guarantees.

Loans Receivable and Other Receivables

The carrying amounts of loans with variable interest rates approximate their fair values because such loans reflect market rates in the short term and credit conditions of counterparties do not significantly change after the loan executions. The fair value of loans with fixed interest rates is calculated by discounting contractual cash flows using interest rates currently available to the Group for similar transactions.

The carrying amounts of doubtful receivables net of allowance for such accounts approximate their fair values due to the same reason as described above.

Rents Receivable

The fair value of this item is calculated by discounting contractual cash flows using interest rates currently available to the Group for similar transactions.

The carrying amounts of doubtful receivables net of allowance for such accounts approximate their fair values due to the same reason as described above.

Investments in Venture Businesses, Securities, and Investment Securities

The fair values of listed stocks are determined based on quoted market prices, and the fair values of debt securities are generally valued at the market quotes obtained from financial institutions, which are estimated taking into account relevant factors such as fluctuations in interest rates, credit rating, remaining maturity and the fair value of underlying assets in case of asset-backed securities. If market quotes from financial institutions are not available, the fair value is calculated by discounting estimated future cash flows using interest rates currently available to the Group for similar transactions.

The information on securities classified by holding purpose is presented in Note 4 on securities, investment securities and investments in venture businesses.

Other under Investments and Other Assets (Receivables from Companies in Bankruptcy and Reorganization)

The carrying amount of this item, net of the related allowance, approximates its fair value because the allowance for this item is estimated based on collectible amounts through liquidation of collateral and/or realization of guarantees.

Liabilities

Trade Notes and Accounts Payable, Short-term Borrowings, and Deposits Received

The carrying amounts of these items approximate their fair values because of their short maturities.

Lease Obligations and Accounts Payable - Other

Of lease obligations and accounts payable - other, the fair values of sub-lease obligations and sub-installments payable are calculated by discounting contractual cash flows using interest rates currently available to the Group for similar transactions. The carrying amounts of these items other than above approximate their fair values because of their short maturities.

Deposits Received from Shareholders, Directors or Employees

The carrying amount of this item other than long-term deposits described below approximates its fair value because of its short maturities.
Since long-term deposits received from shareholders, directors or employees are at variable interest rates and reflect market rates in the short term and credit condition of the Company does not significantly change after acceptance of the deposits, the carrying amount approximates its fair value.

Bonds Payable

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

Long-term Borrowings

The carrying amounts of borrowings with variable interest rates approximate their fair values because such borrowings reflect market rates in the short term and credit condition of the Company does not significantly change after the borrowing executions. The fair values of borrowings with fixed interest rates are calculated by discounting contractual cash flows using interest rates currently available to the Group for similar transactions.

Derivative Transactions

The information on derivative transactions is presented in Note 14 on derivatives.

(b) *Financial instruments whose fair value cannot be reliably determined*

Carrying amounts of financial instruments whose fair values cannot be reliably determined as of March 31, 2013 and 2012 are summarized as follows. These instruments are excluded from investments in venture businesses, securities and investment securities in the above table.

		Carrying Amount		
		Millions of Yen		Thousands of U.S. Dollars
Classification	Type	2013	2012	2013
Investments in affiliates	Unlisted equity securities	¥ 202	¥ 194	$ 2,147
Available-for-sale securities	Unlisted equity securities	6,120	5,094	65,071
	Investments in partnerships	1,296	1,848	13,779
	Total available-for-sale securities	¥ 7,416	¥ 6,942	$ 78,851

(5) Maturity Analysis for Monetary Claims and Securities with Contractual Maturities

March 31, 2013	Millions of Yen					
	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Cash and cash equivalents	¥ 184,988	¥ -	¥ -	¥ -	¥ -	¥ -
Installment sales receivable	7,640	5,246	3,615	2,433	1,541	605
Leases receivable and investments in leases (Note)	123,877	93,393	67,206	47,305	29,975	29,599
Loans receivable	113,231	92,872	318,062	57,037	25,597	51,451
Other receivables	20,346	10,698	4,830	6,504	1,676	8,325
Rents receivable	5,479	3,888	3,316	2,546	1,709	1,306
Credit card receivables	39,995	-	-	-	-	-
Billing receivables	325,728	-	-	-	-	-
Investments in venture businesses, securities and investment securities:						
Available-for-sale securities with contractual maturities	2,381	-	10,627	3,759	5,048	13,273

March 31, 2013	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Cash and cash equivalents	$ 1,966,911	$ -	$ -	$ -	$ -	$ -
Installment sales receivable	81,233	55,778	38,437	25,869	16,384	6,432
Leases receivable and investments in leases (Note)	1,317,139	993,014	714,577	502,977	318,713	314,715
Loans receivable	1,203,944	987,474	3,381,839	606,454	272,163	547,060
Other receivables	216,331	113,748	51,355	69,154	17,820	88,516
Rents receivable	58,256	41,339	35,257	27,070	18,171	13,886
Credit card receivables	425,252	-	-	-	-	-
Billing receivables	3,463,349	-	-	-	-	-
Investments in venture businesses, securities and investment securities:						
Available-for-sale securities with contractual maturities	25,316	-	112,993	39,968	53,673	141,127

Note: Lease payments to be received including interest are presented as leases receivable and investments in leases.

March 31, 2012	Millions of Yen Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Cash and cash equivalents	¥ 80,443	¥ -	¥ -	¥ -	¥ -	¥ -
Installment sales receivable	8,595	5,297	3,154	1,659	785	1,069
Leases receivable and investments in leases (Note)	137,230	105,486	74,735	47,856	27,135	27,194
Loans receivable	168,410	63,273	78,745	66,761	31,100	42,187
Other receivables	21,496	16,070	8,709	2,774	4,812	6,001
Rents receivable	8,542	3,259	2,926	2,361	1,593	1,107
Credit card receivables	34,605	-	-	-	-	-
Investments in venture businesses, securities and investment securities:						
Available-for-sale securities with contractual maturities	6,210	2,487	1,943	6,222	2,763	11,480

Note: Lease payments to be received including interest are presented as leases receivable and investments in leases.

(6) Maturity Analysis for Bonds Payable, Long-term Borrowings and Other Debts

The information on maturity analysis for bonds payable, long-term borrowings and other debts is presented in Note 8 on short-term and long-term debt.

14. DERIVATIVES

The aggregate amounts contracted to be paid or received, fair value and unrealized gains or losses of derivative transactions other than market trades as of March 31, 2013 and 2012 (excluding hedging transactions) are as follows. Fair value is quoted based on the price information from the counterparty financial institution.

	Millions of Yen			
	Contract Amount			
	Total	Due after 1 Year	Fair Value	Unrealized Gain/(Loss)
March 31, 2013				
Currency swaps	¥ 146	¥ -	¥ (3)	¥ (3)
	Thousands of U.S. Dollars			
March 31, 2013				
Currency swaps	$ 1,552	$ -	$ (31)	$ (31)
	Millions of Yen			
March 31, 2012				
Currency swaps	¥ 288	¥ 146	¥ 30	¥ 30

Derivative instruments which qualify as hedging instruments as of March 31, 2013 and 2012 are summarized as follows. Fair value is quoted based on the price information from the counterparty financial institution.

		Millions of Yen		
		Contract Amount		
	Hedged Item	Total	Due after 1 Year	Fair Value
March 31, 2013				
Interest rate swaps (Pay fixed rate, receive variable rate) (Note a)	Long-term borrowings	¥ 292,661	¥ 273,661	¥ (594)
	Loans receivable	54,500	41,500	(330)
Currency swaps (Note b)	Bonds payable	43,936	43,830	9,332
Total		¥ 391,098	¥ 358,991	¥ 8,407

		Thousands of U.S. Dollars		
March 31, 2013				
Interest rate swaps (Pay fixed rate, receive variable rate) (Note a)	Long-term borrowings	$3,111,759	$ 2,909,739	$ (6,315)
	Loans receivable	579,479	441,254	(3,508)
Currency swaps (Note b)	Bonds payable	467,155	466,028	99,223
Total		$4,158,405	$ 3,817,022	$ 89,388

		Millions of Yen		
March 31, 2012				
Interest rate swaps (Pay fixed rate, receive variable rate) (Note a)	Long-term borrowings	¥ 55,655	¥ 45,875	¥ (654)
	Loans receivable	84,500	54,500	(440)
Currency swaps (Note b)	Lease payments receivable	4,531	4,406	321
Total		¥ 144,686	¥ 104,781	¥ (773)

Notes:
a. These contracts are not remeasured at market value, but the differential paid or received under the swap agreements are recognized and included in interest expense or income.
b. Hedged items are translated at the foreign exchange rates stipulated in the contracts, and gains or losses on swap transactions are deferred until the gains or losses on the corresponding hedged items are recognized in income.

15. PLEDGED ASSETS AND COLLATERAL

The assets pledged as collateral and corresponding debt as of March 31, 2013 and 2012 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Assets pledged as collateral:			
Leases receivable and investments in leases	¥ 8,633	¥ 8,489	$ 91,791
Rents receivable	1,591	1,565	16,916
Leased assets	5,207	5,533	55,364
Total	¥ 15,431	¥ 15,589	$ 164,072
Corresponding debt:			
Current portion of long-term borrowings	¥ 538	¥ 448	$ 5,720
Other under current liabilities (Payables associated with securitization of receivables)	11,000	11,000	116,959
Long-term borrowings	1,339	1,656	14,237
Other under long-term liabilities (Long-term deposits received)	94	157	999

As of March 31, 2013, the Group had ¥1,694 million ($18,011 thousand) of notes receivable which was primarily obtained for installment sales.

16. COMMITMENTS AND CONTINGENCIES

As of March 31, 2013, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantee of penalties for breach of lease contracts	¥ 706	$ 7,506
Guarantee of property lease contracts	869	9,239
Guarantee of bank loans	3,131	33,290
Other guarantees	1,543	16,406
Property purchase commitments for leases and installment sales	6,942	73,811
Unexecuted loan commitments (Note)	937,155	9,964,433

Note: The Company enters into loan commitment agreements with customers. As of March 31, 2013, loan commitments given to customers were ¥975,854 million ($10,375,906 thousand), of which ¥38,698 million ($411,461 thousand) had been executed.

These credit lines are not necessarily executed to the maximum amount, because these agreements contain a clause to reject the loans or to lower the credit lines if there are reasonable grounds.

17. COMPREHENSIVE INCOME

Reclassification adjustments and related income tax effect on other comprehensive income for the years ended March 31, 2013 and 2012 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 514	¥ 448	$ 5,465
Reclassification adjustments	322	195	3,423
Amount before income tax effect	836	644	8,888
Income tax effect	(274)	(261)	(2,913)
Unrealized gain on available-for-sale securities	562	382	5,975
Foreign currency translation adjustments:			
Gains/(losses) arising during the year	300	(25)	3,189
Reclassification adjustments	247	-	2,626
Foreign currency translation adjustments	548	(25)	5,826
Share of other comprehensive income/(loss) of affiliates accounted for using equity method:			
Gains/(losses) arising during the year	110	(41)	1,169
Total other comprehensive income	¥ 1,221	¥ 315	$ 12,982

18. SEGMENT INFORMATION

Description of reportable segments

Reportable segments of the Group are defined as components of the Group whose financial information is separately available and evaluated periodically by the Board of Directors in order to determine the allocation of resources and assess business performance.

The Group is engaged in financial service businesses mainly comprised of lease activities. The reportable segments of the Group are composed of five segments: “Lease business,” “Loan business,” “Investment business,” “Credit card business” and “Billing business.”

“Lease business” leases and sells on installment information and office equipment, industrial machine tools as well as commercial, manufacturing and hospital facilities. “Loan business” provides loans and factoring operations. “Investment business” consists of investments in venture business, debt securities and silent partnerships, and provides related services. “Credit card business” collects fees on credit cards from member stores and cardholders, and provides sales financing and consumer loans. “Billing business” provides services for billing and collection of communication service charges.

From the year ended March 31, 2013, “Venture capital business” was merged into “Investment business” in view of business compatibility and a decrease in the asset balance. As for “Corporate loan business,” the name was changed into “Loan business.” “Billing business” was added as a new reportable segment from the year ended March 31, 2013 due to newly-launched services for billing and collection of communication service charges.

Accordingly, reportable segments were changed from the previous five segments of “Lease business,” “Corporate loan business,” “Venture capital business,” “Investment business” and “Credit card business” to the new five segments of “Lease business,” “Loan business,” “Investment business,” “Credit card business” and “Billing business.”

Segment information for the year ended March 31, 2012 was prepared and disclosed based on the new reportable segments for the year ended March 31, 2013 excluding “Billing business” which was newly added from the year ended March 31, 2013.

Method of measurement for the amounts of revenue, profit (loss), assets, and other items for each reportable segment

The accounting policies of the reportable segments are consistent to the description of the summary of significant accounting policies (see Note 2). The segment profit (loss) is based on the operating income (loss) of each reportable segment.

Information about revenue, profit (loss), assets and other items by reportable segment

The following tables represent information about revenue and profit (loss) by reportable segment for the years ended March 31, 2013 and 2012. Assets are not allocated to reportable segments.

	Millions of Yen							
	2013							
	Reportable Segment							
	Lease	Loan	Investment	Credit Card	Billing	Sub-total	Other (Note)	Total
Revenue from external customers	¥ 181,542	¥ 5,786	¥ 2,288	¥ 6,214	¥ 176,706	¥ 372,539	¥ 237	¥ 372,776
Intersegment revenue or transfers	-	-	-	18,656	130	18,786	-	18,786
Total	¥ 181,542	¥ 5,786	¥ 2,288	¥ 24,871	¥ 176,836	¥ 391,325	¥ 237	¥ 391,562
Segment profit	¥ 15,407	¥ 3,406	¥ 992	¥ 2,363	¥ 4,294	¥ 26,464	¥ 88	¥ 26,553

	Thousands of U.S. Dollars							
	2013							
	Reportable Segment							
	Lease	Loan	Investment	Credit Card	Billing	Sub-total	Other (Note)	Total
Revenue from external customers	$ 1,930,271	$ 61,520	$ 24,327	$ 66,071	$ 1,878,851	$ 3,961,073	$ 2,519	$ 3,963,593
Intersegment revenue or transfers	-	-	-	198,362	1,382	199,744	-	199,744
Total	$ 1,930,271	$ 61,520	$ 24,327	$ 264,444	$ 1,880,233	$ 4,160,818	$ 2,519	$ 4,163,338
Segment profit	$ 163,817	$ 36,214	$ 10,547	$ 25,124	$ 45,656	$ 281,382	$ 935	$ 282,328

	Millions of Yen						
	2012						
	Reportable Segment						
	Lease	Loan	Investment	Credit Card	Sub-total	Other (Note)	Total
Revenue from external customers	¥ 208,251	¥ 5,749	¥ 1,902	¥ 8,628	¥ 224,531	¥ 295	¥ 224,827
Intersegment revenue or transfers	-	-	-	-	-	-	-
Total	¥ 208,251	¥ 5,749	¥ 1,902	¥ 8,628	¥ 224,531	¥ 295	¥ 224,827
Segment profit/ (loss)	¥ 20,087	¥ 3,301	¥ 557	¥ 1,047	¥ 24,993	¥ (301)	¥ 24,692

Note: "Other" includes business segments not identified as a reportable segment, including cash management business, guarantee business and non-life insurance agent business for NTT Group.

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

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Revenue:			
Reportable segments total	¥ 391,325	¥ 224,531	$ 4,160,818
Other	237	295	2,519
Intersegment eliminations	(18,786)	-	(199,744)
Revenue in the consolidated statements of income	¥ 372,776	¥ 224,827	$ 3,963,593
Segment profit (loss):			
Reportable segments total	¥ 26,464	¥ 24,993	$ 281,382
Other	88	(301)	935
Corporate expenses (Note)	(7,148)	(5,695)	(76,002)
Operating income in the consolidated statements of income	¥ 19,404	¥ 18,996	$ 206,315

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

Related information

Disclosures on information by product and service are omitted, as the information is equivalent to the above information by reportable segment.

Disclosures on information by geographical area are omitted, as each of revenue from external customers and total property and equipment in Japan exceeds 90% of consolidated revenue and property and equipment, respectively.

Information about revenue by customer for the year ended March 31, 2013 is as follows:

	Revenue		
	Millions of Yen	Thousands of U.S. Dollars	Related Segments
NTT DOCOMO, INC.	¥ 87,791	$ 933,450	Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION	48,380	514,407	Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	43,241	459,766	Lease and Billing

Disclosures on revenue by customer for the year ended March 31, 2012 are omitted, as no customer accounts for more than 10% of consolidated revenue.

Loss on impairment of long-lived assets by reportable segment

For the year ended March 31, 2013, there is no applicable information to disclose.
Loss on impairment of long-lived assets by reportable segment for the year ended March 31, 2012 is as follows:

	Millions of Yen						
	2012						
	Lease	Loan	Investment	Credit Card	Other	Corporate/ Elimination	Total
Impairment loss	¥ -	¥ -	¥ -	¥ 75	¥ -	¥ -	¥ 75

Goodwill by reportable segment

Disclosures on information about goodwill by reportable segment are omitted, as there is no applicable information to disclose.

19. RELATED PARTY TRANSACTIONS

Transactions and account balances of the Company with NTT, which has a 91.11% (direct) and 8.19% (indirect) ownership share in the Company in 2013 and 2012, as of and for the years ended March 31, 2013 and 2012 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Transactions:			
Acceptance of excess funds	¥ 1,940,000	¥ 2,422,000	$20,627,325
Acceptance of excess funds under a cash management agreement	14,290	-	151,940
Interest expense on deposits	171	324	1,818
Execution of loans	240,000	-	2,551,834
Interest income on loans	100	-	1,063
Collection of charges as an agent	2,231	2,558	23,721
Account balances:			
Loans receivable	240,000	-	2,551,834
Other under current assets	100	-	1,063
Deposits received from shareholders, directors or employees	101,543	152,331	1,079,670
Other under current liabilities	1	5	10

In addition to the above, the Group enters into several other transactions with related parties, most of which are companies under common control. Specifically, significant transactions and related account balances with 10 other NTT Group companies (15 in 2012) as of and for the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Transactions:			
Acceptance of excess funds	¥ 1,633,000	¥ 1,002,900	$ 17,363,104
Acceptance of excess funds under a cash management agreement	56,564	30,221	601,424
Interest expense on deposits	298	236	3,168
Execution of loans	166,800	187,450	1,773,524
Execution of loans under a cash management agreement	7,272	23,023	77,320
Interest income on loans	1,883	2,348	20,021
Collection of telephone charge as an agent	3,394,064	2,880,937	36,087,868
Transactions related to transferred receivables	4,226,051	-	44,934,088
Receipt of fees for billing and collection services of communication service charges	172,933	-	1,838,734
Account balances:			
Billing receivables	24,538	-	260,903
Accounts payable - other	375,260	-	3,990,005
Deposits received	192,125	23,347	2,042,796
Deposits received from shareholders, directors or employees	142,934	245,443	1,519,766
Other under current liabilities	10,140	46	107,814
Long-term deposits received from shareholders, directors or employees	240,000	10,000	2,551,834
Loans receivable	179,821	288,717	1,911,972
Other under current assets	294	482	3,125

20. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2013 was approved at the Company’s shareholders meeting held on June 21, 2013:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥68,572.00 ($729.10) per share	¥ 3,563	$ 37,884

* * * * *

<u>Independent Auditor's Report</u>

To the Board of Directors of NTT FINANCE CORPORATION

We have audited the accompanying consolidated financial statements of NTT FINANCE CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of NTT FINANCE CORPORATION and its consolidated subsidiaries as at March 31, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(k) to the consolidated financial statements, which describes that starting in the fiscal year ended March 31, 2013, the Company has elected to change its method of accounting for recognition of actuarial gains or losses for retirement benefits.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 21, 2013
Tokyo, Japan