

# Consolidated Financial Statements

NTT FINANCE CORPORATION and Consolidated Subsidiaries

For the Years ended March 31,  
2015 and 2014  
Together with Independent Auditors' Report

**NTT FINANCE CORPORATION and Consolidated Subsidiaries**  
**Consolidated Balance Sheets**  
**March 31, 2015 and 2014**

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015		2015	2014	2015
<b>CURRENT ASSETS:</b>				<b>CURRENT LIABILITIES:</b>			
Cash and cash equivalents (Note 11)	¥ 313,636	¥ 373,295	\$ 2,609,937	Short-term bank loans (Notes 6 and 11)	¥ 34,000	¥ 90,127	\$ 282,932
Leases receivable and investments in leases (Notes 10, 11, and 13)	403,757	376,242	3,359,886	Current portion of long-term borrowings (Notes 6, 11 and 13)	45,336	47,503	377,270
Trade accounts receivable (Note 11):				Current portion of bonds (Notes 6 and 11)	44,998	39,998	374,458
Installment sales (Note 13)	57,657	38,364	479,799	Commercial papers (Notes 6 and 11)	206,993	54,999	1,722,505
Loans (Note 17)	967,036	948,401	8,047,237	Lease obligations (Notes 6, 10 and 11)	787	849	6,554
Other loans (Note 13)	55,135	47,288	458,810	Trade notes and accounts payable (Note 11)	22,341	22,874	185,917
Rents (Note 13)	19,568	18,308	162,838	Accounts payable - other (Notes 11 and 17)	432,857	423,178	3,602,043
Credit cards	48,701	41,195	405,269	Accrued income taxes	2,709	1,161	22,550
Billing (Note 17)	142,412	153,835	1,185,094	Unearned profit on installment sales	1,832	1,142	15,249
Allowance for doubtful receivables	(25,233)	(30,687)	(209,983)	Deposits received (Notes 11 and 17)	301,640	267,749	2,510,112
Investments in venture businesses (Notes 3 and 11)	2,043	1,594	17,004	Deposits received from shareholders, directors or employees (Notes 11 and 17)	187,112	447,387	1,557,061
Securities (Notes 3 and 11)	11,801	4,008	98,204	Current portion of long-term deposits received from shareholders, directors or employees (Notes 11 and 17)	240,000	-	1,997,170
Deferred tax assets (Note 9)	6,907	7,780	57,480	Asset retirement obligations	61	-	511
Other	41,681	44,303	346,855	Other (Notes 6 and 13)	21,267	21,640	176,974
<b>Total current assets</b>	<b>2,045,105</b>	<b>2,023,928</b>	<b>17,018,436</b>	<b>Total current liabilities</b>	<b>1,541,938</b>	<b>1,418,612</b>	<b>12,831,313</b>
<b>PROPERTY AND EQUIPMENT, NET (Note 4):</b>				<b>LONG-TERM LIABILITIES:</b>			
Leased assets (Note 13)	34,782	8,180	289,444	Bonds	219,691	185,469	1,828,169
Assets held for own use	4,779	5,256	39,774	Long-term borrowings (Notes 6, 11 and 13)	277,709	152,963	2,310,971
<b>Total property and equipment, net</b>	<b>39,562</b>	<b>13,436</b>	<b>329,218</b>	Lease obligations (Notes 6 and 11)	34	41	287
<b>INTANGIBLE ASSETS—Assets held for own use</b>	<b>4,383</b>	<b>5,582</b>	<b>36,478</b>	Accrued directors' retirement benefits	47	53	396
<b>INVESTMENTS AND OTHER ASSETS:</b>				Defined benefit liability (Note 7)	7,861	8,322	65,423
Investment securities (Notes 3, 5 and 11)	69,471	58,518	578,106	Long-term deposits received from shareholders, directors or employees (Note 17)	-	240,000	-
Defined benefit asset (Note 7)	333	-	2,774	Reserve for loss on business of affiliates	-	129	-
Deferred tax assets (Note 9)	4,055	5,010	33,746	Asset retirement obligations	2,189	2,239	18,219
Other (Notes 5 and 11)	15,483	20,112	128,846	Other (Note 13)	8,796	7,171	73,204
Allowance for doubtful receivables (Note 11)	(4,557)	(6,003)	(37,922)	<b>Total long-term liabilities</b>	<b>516,331</b>	<b>596,391</b>	<b>4,296,672</b>
Allowance for investment loss	(1)	(93)	(10)	<b>Total liabilities</b>	<b>2,058,269</b>	<b>2,015,004</b>	<b>17,127,985</b>
<b>Total investments and other assets</b>	<b>84,784</b>	<b>77,544</b>	<b>705,541</b>	<b>NET ASSETS:</b>			
				Shareholders' equity (Note 8):			
				Common stock—authorized, 80,000 shares; issued, 51,960 shares in 2015 and 2014	16,770	16,770	139,560
				Capital surplus	15,950	15,950	132,732
				Retained earnings	80,209	71,885	667,464
				Treasury stock; 595 shares in 2015 and 2014	(1,126)	(1,126)	(9,378)
				<b>Total shareholders' equity</b>	<b>111,803</b>	<b>103,480</b>	<b>930,379</b>
				Accumulated other comprehensive income:			
				Unrealized gain on available-for-sale securities	1,275	1,177	10,616
				Foreign currency translation adjustments	968	57	8,061
				Remeasurements of defined benefit plans	816	108	6,795
				<b>Total accumulated other comprehensive income</b>	<b>3,061</b>	<b>1,343</b>	<b>25,472</b>
				Minority interests	701	664	5,837
				<b>Total net assets</b>	<b>115,566</b>	<b>105,487</b>	<b>961,689</b>
<b>TOTAL ASSETS</b>	<b>¥ 2,173,836</b>	<b>¥ 2,120,491</b>	<b>\$ 18,089,675</b>	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>¥ 2,173,836</b>	<b>¥ 2,120,491</b>	<b>\$ 18,089,675</b>

See notes to consolidated financial statements.

**NTT FINANCE CORPORATION and Consolidated Subsidiaries**

**Consolidated Statements of Income  
Years Ended March 31, 2015 and 2014**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
REVENUE:	¥ 396,931	¥ 401,622	\$ 3,303,085
COST OF SALES	<u>234,108</u>	<u>233,586</u>	<u>1,948,148</u>
Gross profit	162,822	168,035	1,354,937
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>145,912</u>	<u>149,767</u>	<u>1,214,216</u>
Operating income	<u>16,910</u>	<u>18,267</u>	<u>140,720</u>
OTHER INCOME:			
Interest income	0	0	0
Dividend income	58	26	486
Foreign exchange gain	347	106	2,893
Equity in earnings of affiliates	80	111	667
Gain on bad debts recovered	345	184	2,875
Other	<u>73</u>	<u>64</u>	<u>611</u>
Total other income	905	493	7,536
OTHER EXPENSES:			
Interest expense	212	240	1,765
Bond issuance costs	155	153	1,297
Loss on retirement of assets held for own use	147	86	1,231
Other	<u>33</u>	<u>17</u>	<u>282</u>
Total other expenses	549	497	4,576
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>17,266</u>	<u>18,262</u>	<u>143,680</u>
INCOME TAXES (Note 9):			
Current	5,124	6,148	42,642
Deferred	<u>1,333</u>	<u>1,730</u>	<u>11,100</u>
Total income taxes	<u>¥ 6,458</u>	<u>¥ 7,878</u>	<u>\$ 53,743</u>

**NTT FINANCE CORPORATION and Consolidated Subsidiaries**

**Consolidated Statements of Income  
Years Ended March 31, 2015 and 2014**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
INCOME BEFORE MINORITY INTERESTS	¥ 10,807	¥ 10,383	\$ 89,937
MINORITY INTERESTS IN INCOME	39	28	330
NET INCOME	¥ 10,768	¥ 10,355	\$ 89,606
	Yen		U.S. Dollars (Note 1)
	2015	2014	2015
PER SHARE OF COMMON STOCK:			
Weighted average number of shares outstanding	51,365	51,657	
Basic net income	¥ 209,637.38	¥ 200,466.12	\$ 1,744.50
Cash dividends applicable to the year (Note 18)	79,920.00	54,960.00	665.05

See notes to consolidated financial statements.

**NTT FINANCE CORPORATION and Consolidated Subsidiaries**

**Consolidated Statements of Comprehensive Income  
Years Ended March 31, 2015 and 2014**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
INCOME BEFORE MINORITY INTERESTS	¥ 10,807	¥ 10,383	\$ 89,937
OTHER COMPREHENSIVE INCOME (Note 15):			
Net unrealized gain on available-for-sale securities	98	377	819
Foreign currency translation adjustments	719	302	5,988
Remeasurements of defined benefit plans	708	-	5,894
Share of other comprehensive income of affiliates accounted for using equity method	191	231	1,594
Total other comprehensive income	1,718	911	14,296
COMPREHENSIVE INCOME	¥ 12,525	¥ 11,295	\$ 104,234
Comprehensive income attributable to:			
Owners of parent	¥ 12,486	¥ 11,266	\$ 103,903
Minority interests	39	28	330

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity  
Years Ended March 31, 2015 and 2014

	Millions of Yen												
	Shareholders' Equity						Accumulated Other Comprehensive Income						Total Net Assets
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Minority Interests		
BALANCE, APRIL 1, 2013	51,960	¥ 16,770	¥ 15,950	¥ 65,093	¥ -	¥ 97,814	¥ 799	¥ (476)	¥ -	¥ 323	¥ 635	¥ 98,773	
Cash dividends, ¥68,572.00 per share				(3,563)		(3,563)						(3,563)	
Net income				10,355		10,355						10,355	
Purchase of treasury stock	(595)				(1,126)	(1,126)						(1,126)	
Net changes of items other than shareholders' equity							377	533	108	1,019	28	1,047	
BALANCE, MARCH 31, 2014	51,365	16,770	15,950	71,885	(1,126)	103,480	1,177	57	108	1,343	664	105,487	
Cumulative effects of changes in accounting policies				378		378						378	
BALANCE, APRIL 1, 2014	51,365	16,770	15,950	72,264	(1,126)	103,858	1,177	57	108	1,343	664	105,865	
Cash dividends, ¥54,960.00 per share				(2,823)		(2,823)						(2,823)	
Net income				10,768		10,768						10,768	
Net changes of items other than shareholders' equity							98	911	708	1,718	37	1,755	
BALANCE, MARCH 31, 2015	51,365	¥ 16,770	¥ 15,950	¥ 80,209	¥ (1,126)	¥ 111,803	¥ 1,275	¥ 968	¥ 816	¥ 3,061	¥ 701	¥ 115,566	

	Thousands of U.S. Dollars (Note 1)												
	Shareholders' Equity						Accumulated Other Comprehensive Income						Total Net Assets
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Minority Interests			
BALANCE, MARCH 31, 2014	\$ 139,560	\$ 132,732	\$ 598,200	\$ (9,378)	\$ 861,114	\$ 9,796	\$ 478	\$ 900	\$ 11,175	\$ 5,527	\$ 877,818		
Cumulative effects of changes in accounting policies			3,150		3,150						3,150		
BALANCE, APRIL 1, 2014	139,560	132,732	601,350	(9,378)	864,264	9,796	478	900	11,175	5,527	880,968		
Cash dividends, \$457.35 per share			(23,491)		(23,491)						(23,491)		
Net income			89,606		89,606						89,606		
Net changes of items other than shareholders' equity						819	7,582	5,894	14,296	310	14,607		
BALANCE, MARCH 31, 2015	\$ 139,560	\$ 132,732	\$ 667,464	\$ (9,378)	\$ 930,379	\$ 10,616	\$ 8,061	\$ 6,795	\$ 25,472	\$ 5,837	\$ 961,689		

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows  
Years Ended March 31, 2015 and 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 17,266	¥ 18,262	\$ 143,680
Adjustments for:			
Depreciation of leased assets and assets held for own use	4,561	3,968	37,958
Loss on retirement of leased assets and assets held for own use	2,468	288	20,543
Increase/(decrease) in allowance for investment loss	(92)	12	(771)
Increase in defined benefit asset	(401)	-	(3,337)
Increase in defined benefit liability	1,228	1,381	10,222
Decrease in accrued directors' retirement benefits	(6)	(4)	(51)
Increase/(decrease) in allowance for doubtful receivables	(6,899)	2,975	(57,415)
Decrease in reserve for loss on business of affiliates	(129)	(394)	(1,080)
Interest and dividend income	(58)	(26)	(487)
Financing costs and interest expense	5,092	4,917	42,381
Foreign exchange gain	(347)	(106)	(2,893)
Equity in earnings of affiliates	(80)	(111)	(667)
Loss on valuation of investment securities	3	3	25
Bond issuance costs	155	153	1,297
Increase in trade accounts receivable - installment sales	(19,293)	(17,281)	(160,550)
Increase in leases receivable and investments in leases	(27,052)	(18,674)	(225,120)
Increase in trade accounts receivable - loans	(10,646)	(285,308)	(88,594)
(Increase)/decrease in trade accounts receivable - other loans	(6,825)	5,626	(56,798)
Increase in trade accounts receivable - rents	(1,259)	(61)	(10,482)
Increase in trade accounts receivable - credit cards	(7,505)	(1,199)	(62,461)
Decrease in trade accounts receivable - billing	11,422	171,893	95,051
Increase in investments in venture businesses	(63)	(324)	(530)
Increase in other securities to earn financial income for operating purpose	(13,236)	(11,952)	(110,144)
Purchases of leased assets	(30,539)	(433)	(254,133)
Increase/(decrease) in trade notes and accounts payable	(532)	7,997	(4,429)
Increase in accounts payable - other	9,679	8,420	80,546
Other—net	34,080	65,055	283,600
Subtotal	(39,012)	(44,922)	(324,646)
Interest and dividend income received	85	52	709
Interest expense paid	(5,143)	(4,896)	(42,799)
Income taxes paid	(3,544)	(13,865)	(29,496)
Net cash used in operating activities—(Forward)	¥ (47,615)	¥ (63,631)	\$ (396,233)

**NTT FINANCE CORPORATION and Consolidated Subsidiaries**

**Consolidated Statements of Cash Flows  
Years Ended March 31, 2015 and 2014**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
Net cash used in operating activities—(Forward)	¥ (47,615)	¥ (63,631)	\$ (396,233)
<b>INVESTING ACTIVITIES:</b>			
Proceeds from withdrawal of time deposits	2	517	16
Payments into negotiable certificates of deposit	(2,000)	-	(16,643)
Payments for purchases of investment securities	(33)	(299)	(274)
Payments for purchases of investments in affiliates	(3,598)	-	(29,946)
Payments for investments in capital of subsidiaries and affiliates	(557)	-	(4,640)
Payments for purchases of assets held for own use	(1,362)	(1,470)	(11,342)
Payments for purchases of investments in capital	-	(3,650)	-
Proceeds from redemption of investments in capital	4,241	-	35,294
Other—net	(182)	62	(1,519)
Net cash used in investing activities	(3,491)	(4,840)	(29,054)
<b>FINANCING ACTIVITIES:</b>			
Increase/(decrease) in short-term bank loans	(68,853)	38,023	(572,968)
Increase in commercial papers	151,994	54,999	1,264,827
Increase in long-term borrowings	153,794	46,516	1,279,805
Repayments of long-term borrowings	(50,940)	(52,327)	(423,901)
Decrease in payables associated with securitization of receivables	(2,000)	(1,000)	(16,643)
Proceeds from issuance of bonds	75,136	60,859	625,252
Redemption of bonds	(40,000)	(40,000)	(332,861)
Cash dividends paid	(2,823)	(3,563)	(23,491)
Payments for purchase of treasury stock	-	(1,126)	-
Increase/(decrease) in deposits received	(225,261)	163,063	(1,874,520)
Repayments of long-term deposits received	-	(10,000)	-
Other—net	(0)	(9)	(3)
Net cash provided by/(used in) financing activities	(8,953)	255,434	(74,504)
<b>EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS</b>	<b>400</b>	<b>1,345</b>	<b>3,335</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(59,659)</b>	<b>188,307</b>	<b>(496,456)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>373,295</b>	<b>184,988</b>	<b>3,106,394</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>¥ 313,636</b>	<b>¥ 373,295</b>	<b>\$ 2,609,937</b>

See notes to consolidated financial statements.



# NTT FINANCE CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements Years Ended March 31, 2015 and 2014

### 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 have been made to the prior year’s consolidated financial statements to bring them into conformity with the current year’s 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 ¥120.17 to \$1.00, the approximate rate of exchange at March 31, 2015, and then the translated amounts have been rounded down to the nearest thousand. As a result, the totals shown in the accompanying consolidated financial statements in U.S. dollar do not necessarily agree with the sums of the individual amounts. Such translation should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation*—Entities over which the Company has, directly or indirectly, a controlling financial interest are fully consolidated, and entities over which the Company has the ability to exercise significant influence are accounted for by the equity method.

The consolidated financial statements as of March 31, 2015 include the accounts of the Company and its 13 significant subsidiaries (13 in 2014), such as NTTL Holdings, Inc. (together, the “Group”).

NTT Leasing Singapore Pte. Ltd. and ACHERNAR LTD., that are both newly established companies, are included in the scope of consolidation while Cinema Complex Limited Liability Partnership and the Silent Partnership operated by Trochilus Ltd. are excluded from the scope of consolidation due to the liquidation and the decreased materiality resulting from the termination of business, respectively.

Investments in three affiliates (two in 2014) are accounted for by the equity method.

V Lease Ltd. was included in the scope of the equity method due to the acquisition of shares.

Investments in 97 non-consolidated subsidiaries (91 in 2014), including 74 operators under silent partnership agreements (70 in 2014) whose profit/loss and assets do not vest in the operators, are stated at cost, and no affiliate 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 5 for description of silent partnerships.

The fiscal year-end of one consolidated silent partnership is March 25. The financial statements of such partnership as of and for the year ended its respective closing date are used for consolidation and necessary adjustments were made to the consolidated financial statements to reflect any significant

transactions between its fiscal year-end and March 31. The fiscal year-ends of a consolidated silent partnership and a consolidated subsidiary are September 30 and December 31, respectively. 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. Goodwill**—Goodwill is amortized using the straight-line method over the period where the respective goodwill is considered to be effective.
- g. 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.
- h. Bond Issuance Costs**—Bond issuance costs are charged to expense as incurred.
- i. 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.
- j. 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.
- k. Retirement Benefit Plans**—The Company has funded and unfunded defined benefit plans. In determining retirement benefit obligations, the benefit formula basis is used for the method of attributing expected

benefit to periods. Past service costs are amortized by the straight-line method over the average remaining years of service of the employees when such past service costs occur. 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.

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*— All financial statement 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.
- 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.

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.

**s. *Changes in Accounting Policies***

*Application of Accounting Standard for Retirement Benefits*

The Company has applied the main clause of Paragraph 35 of the “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 26, issued on May 17, 2012) (the “Accounting Standard”) and the main clause of Paragraph 67 of the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, issued on March 26, 2015) (the “Guidance”) from the fiscal year ended March 31, 2015. Consequently, the method of attributing expected benefit to periods was changed from the straight-line basis to the benefit formula basis. The method of determining the discount rate was also changed.

In accordance with the transitional treatment provided for in Paragraph 37 of the Accounting Standard, the amount of financial impact resulting from the change in the calculation method of retirement benefit obligations and service costs was added to, or deducted from, retained earnings as of April 1, 2014.

As a result of this change, defined benefit liability decreased by ¥586 million (\$4,878 thousand) and retained earnings increased by ¥378 million (\$3,150 thousand) as of April 1, 2014.

The effects on operating income and income before income taxes and minority interests, however, were immaterial for the fiscal year ended March 31, 2015.

The impact on per-share information was also immaterial.

**t. *Additional Information***

To enhance the efficiency of funds of the group of NIPPON TELEGRAPH AND TELEPHONE CORPORATION (“NTT Group”), the Company has established the global cash management system (“Global CMS”) for the NTT Group companies in cooperation with a certain financial institution since 2012 in which funds are loaned and deposited among the NTT Group companies participating in Global CMS.

Under a new clause of the Global CMS set forth in March 2015, the balances of deposits and short-term bank loans can be offset with each other. As all disclosure requirements for netting assets and liabilities are met, the relevant balances of deposits and short-term bank loans are presented as a net amount on the consolidated balance sheet as of March 31, 2015.

The respective offsetting amounted to ¥95,556 million (\$795,177 thousand) as of March 31, 2015.

### 3. SECURITIES, INVESTMENT SECURITIES AND INVESTMENTS IN VENTURE BUSINESSES

Acquisition cost and fair value of available-for-sale securities as of March 31, 2015 and 2014 are as follows:

	Millions of Yen		
	2015		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	¥ 570	¥ 212	¥ 358
Debt securities	40,250	39,474	776
Others	13,093	12,551	542
Sub-total	<u>53,915</u>	<u>52,238</u>	<u>1,676</u>
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	15,211	15,258	(46)
Others	2,000	2,000	-
Sub-total	<u>17,211</u>	<u>17,258</u>	<u>(46)</u>
Total	<u>¥ 71,127</u>	<u>¥ 69,497</u>	<u>¥ 1,630</u>
	Thousands of U.S. Dollars		
	2015		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	\$ 4,749	\$ 1,769	\$ 2,980
Debt securities	334,947	328,489	6,458
Others	108,961	104,448	4,512
Sub-total	<u>448,658</u>	<u>434,707</u>	<u>13,951</u>
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	126,586	126,972	(386)
Others	16,643	16,643	-
Sub-total	<u>143,229</u>	<u>143,615</u>	<u>(386)</u>
Total	<u>\$ 591,888</u>	<u>\$ 578,323</u>	<u>\$ 13,565</u>

Unlisted equity securities of ¥7,466 million (\$62,130 thousand) and investments in partnerships of ¥955 million (\$7,947 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		
	2014		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	¥ 526	¥ 205	¥ 320
Debt securities	39,346	38,584	762
Others	12,766	12,140	626
Sub-total	52,639	50,929	1,710
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	3,194	3,200	(5)
Sub-total	3,194	3,200	(5)
Total	¥ 55,833	¥ 54,129	¥ 1,704

Unlisted equity securities of ¥6,867 million and investments in partnerships of ¥1,222 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, 2015 and 2014 are as follows:

	Millions of Yen		
	2015		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	¥ 436	¥ 424	¥ -
	Thousands of U.S. Dollars		
	2015		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	\$ 3,634	\$ 3,529	\$ -
	Millions of Yen		
	2014		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	¥ 1,015	¥ 984	¥ -

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, 2015 were ¥99 million (\$828 thousand) and ¥3 million (\$25 thousand), respectively. Losses on impairment of available-for-sale securities and investments in affiliates for the year ended March 31, 2014 were ¥27 million and ¥3 million, respectively.

As of March 31, 2015, debt securities held by the Group to earn financial income for operating purpose are included in securities and investment securities in the amount of ¥9,801 million (\$81,561 thousand) and ¥58,755 million (\$488,934 thousand), respectively. As of March 31, 2014, debt securities held by the Group to earn financial income are included in securities and investment securities in the amount of ¥4,008 million and ¥51,299 million, respectively.

#### 4. PROPERTY AND EQUIPMENT, NET

Accumulated depreciation of leased assets and assets held for own use as of March 31, 2015 and 2014 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Leased assets	¥ 5,221	¥ 4,131	\$ 43,449
Assets held for own use	3,769	2,858	31,371

#### 5. INVESTMENTS IN NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in non-consolidated subsidiaries and affiliates as of March 31, 2015 and 2014 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Investment securities	¥ 3,767	¥ 198	\$ 31,349
Other under investments and other assets	2,067	1,132	17,206

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.

## 6. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debts as of March 31, 2015 and 2014 consisted of the following:

	Interest Rate (%) (Notes a, b, c and d)	Millions of Yen		Thousands of U.S. Dollars
		2015	2014	2015
Short-term debt:				
Short-term bank loans	0.229	¥ 34,000	¥ 90,127	\$ 282,932
Commercial papers	0.085	206,993	54,999	1,722,505
Short-term borrowings		240,993	145,126	2,005,437
Lease obligations, current portion	-	276	382	2,299
Payables associated with securitization of receivables	0.102	8,000	10,000	66,572
Deposits received from NTT Group companies, including current portion of long-term deposits received from NTT Group companies	0.080	589,832	575,093	4,908,319
Long-term debt:				
Long-term borrowings	0.775	323,045	200,467	2,688,241
Unsecured bonds	0.15 – 0.56	199,973	184,979	1,664,090
Bonds issued under Euro Medium Term Note Program	0.69 – 1.50	64,716	40,488	538,538
Sub-total		587,735	425,935	4,890,869
Less current portion		90,335	87,501	751,729
Long-term debt		497,400	338,433	4,139,140
Lease obligations, excluding current portion	-	545	508	4,541
Long-term deposits received from NTT Group companies	-	-	240,000	-

- Notes:
- 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, 2015.
  - Interest rate for unsecured bonds represents the range of annual coupon rates on series 38th to 47th bonds, rounded down to the nearest hundredth percent.
  - Interest rate for bonds issued under Euro Medium Term Note Program represents the range of annual coupon rates on series 1st to 3rd, rounded down to the nearest hundredth percent.
  - Interest rate for finance lease obligations is not disclosed since lease obligations are recorded on the consolidated balance sheets 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 as of March 31, 2015 are summarized as follows:

		Millions of Yen					
March 31, 2015		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	¥ 45,336	¥ 50,349	¥ 31,426	¥ 88,603	¥ 35,019	¥ 72,312	
Bonds payable	44,998	61,194	54,479	64,031	39,986	-	
Lease obligations	276	204	123	76	22	120	
Long-term deposits received from NTT Group companies	240,000	-	-	-	-	-	

  

		Thousands of U.S. Dollars					
March 31, 2015		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	\$ 377,270	\$ 418,981	\$ 261,512	\$ 737,313	\$ 291,412	\$ 601,747	
Bonds payable	374,452	509,228	453,349	532,836	332,745	-	
Lease obligations	2,296	1,697	1,023	632	183	998	
Long-term deposits received from NTT Group companies	1,997,170	-	-	-	-	-	

## 7. RETIREMENT BENEFITS

### (1) Overview of Retirement Benefit Plans

The Company has funded and unfunded defined benefit plans, i.e., NTT corporate pension fund plan, contract-type corporate pension plan and lump-sum payment plan. The defined benefit corporate pension plans, all of which are funded, provide lump-sum or pension benefits based on salaries and the length of service. The lump-sum payment plan, which is unfunded, provides lump-sum benefits based on salaries and the length of service.

Contribution to the contract-type pension plan made on or after April 1, 2014 has been transferred to a defined contribution pension plan.

**(2) Defined Benefit Plans**

*(a) Reconciliation between retirement benefit obligations at beginning of year and end of year*

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Retirement benefit obligations at beginning of year	¥ 17,840	¥ 16,440	\$ 148,458
Cumulative effects of changes in accounting policies	(586)	-	(4,878)
Retirement benefit obligations at beginning of year after reflecting cumulative effects of changes in accounting policies	17,253	16,440	143,579
Current service costs	655	750	5,451
Interest costs	256	250	2,131
Actuarial gains and losses arising during year	(293)	(243)	(2,445)
Retirement benefits paid	(487)	(495)	(4,059)
Past service costs arising during year	-	(706)	-
Succession due to transfer	1,390	1,843	11,574
Retirement benefit obligations at end of year	¥ 18,774	¥ 17,840	\$ 156,232

*(b) Reconciliation between plan assets at beginning of year and end of year*

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Plan assets at beginning of year	¥ 9,517	¥ 7,731	\$ 79,204
Expected return on plan assets	225	183	1,876
Actuarial gains and losses arising during year	739	691	6,152
Contribution from employer	169	228	1,411
Retirement benefits paid	(311)	(333)	(2,588)
Succession due to transfer	909	1,021	7,565
Other	(4)	(4)	(38)
Plan assets at end of year	¥ 11,245	¥ 9,517	\$ 93,583

*(c) Reconciliation between retirement benefit obligations and plan assets and defined benefit liability and defined benefit asset on the consolidated balance sheets*

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Retirement benefit obligations of NTT corporate pension fund (funded plan)	¥ 11,649	¥ 10,383	\$ 96,942
Plan assets	(8,863)	(7,166)	(73,758)
	2,786	3,216	23,183
Retirement benefit obligations of contract-type corporate pension (funded plan)	2,048	2,031	17,049
Plan assets	(2,382)	(2,351)	(19,824)
	(333)	(319)	(2,774)
Retirement benefit obligations of lump-sum payment (unfunded plan)	5,075	5,425	42,239
Net balance of liability and assets recorded on the consolidated balance sheet	7,528	8,322	62,649
Defined benefit liability	7,861	8,322	65,423
Defined benefit asset	(333)	-	(2,774)
Net balance of liability and assets recorded on the consolidated balance sheet	¥ 7,528	¥ 8,322	\$ 62,649

(d) Profit and loss related to retirement benefits

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Current service costs	¥ 1,209	¥ 1,503	\$ 10,069
Interest costs	256	250	2,131
Expected return on plan assets	(225)	(183)	(1,876)
Amortization of actuarial gains and losses	65	155	548
Amortization of past service costs	(64)	(29)	(534)
Retirement benefit costs on defined benefit plans	¥ 1,242	¥ 1,697	\$ 10,337

(e) Remeasurements of defined benefit plans recorded in other comprehensive income

Breakdown of items recorded as remeasurements of defined benefit plans, before tax, recorded in other comprehensive income is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Past service costs	¥ (64)	¥ -	\$ (534)
Actuarial gains and losses	1,099	-	9,146
Total	¥ 1,034	¥ -	\$ 8,611

(f) Remeasurements of defined benefit plans recorded in accumulated other comprehensive income

Breakdown of items recorded as remeasurements of defined benefit plans, before tax, included in accumulated other comprehensive income is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Unrecognized past service costs	¥ 613	¥ 677	\$ 5,103
Unrecognized actuarial gains and losses	589	(509)	4,903
Total	¥ 1,202	¥ 167	\$ 10,006

(g) Breakdown of plan assets

Percentage to total plan assets by main category is as follows:

(i) NTT corporate pension fund

	2015	2014
	Cash and cash equivalents	0.77%
Debt securities	42.73	43.15
Equity securities	29.08	28.41
Beneficiary certificates of securities investment trust	7.51	7.41
Jointly managed money trust	8.12	8.78
General account of life insurance	11.58	11.22
Other	0.21	0.29
Total	100.00%	100.00%

(ii) Contract-type corporate pension

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	0.46%	0.45%
Debt securities	46.10	40.20
Equity securities	17.79	16.36
Beneficiary certificates of securities investment trust	4.09	3.65
Jointly managed money trust	12.26	19.84
General account of life insurance	19.30	19.50
Total	<u>100.00%</u>	<u>100.00%</u>

(h) *Determination of long-term expected rate of return*

In determining long-term expected rate of return on plan assets, the Company considers current and future plan asset portfolio, and expected return and risks based on the analysis of past yields on various long-term investments.

(i) *Actuarial assumptions*

	<u>2015</u>	<u>2014</u>
Actuarial assumptions at end of year:		
Discount rate	1.5%	1.5%
Long-term expected rate of return:		
NTT corporate pension fund	2.5%	2.5%
Contract-type corporate pension	2.0%	2.0%

(3) *Defined Contribution Plans*

The required contributions to the defined contribution plans of the Company amounted to ¥207 million (\$1,725 thousand).

## 8. 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.

## 9. 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 35.41% and 37.79% for the years ended March 31, 2015 and 2014, 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, 2015 and 2014 are as follows:

	Millions of Yen		Thousands of
	2015	2014	U.S. Dollars
Deferred tax assets:			
Current:			
Allowance for doubtful receivables	¥ 5,981	¥ 6,489	\$ 49,771
Accrued enterprise taxes	220	79	1,838
Accrued bonuses	640	759	5,331
Accounts payable - other	202	404	1,688
Loss on valuation of investments in venture businesses	353	424	2,937
Unearned profit on installment sales	234	228	1,950
Effect of change in finance lease accounting	-	305	-
Others	179	156	1,491
Sub-total	7,812	8,846	65,009
Valuation allowance	(762)	(1,021)	(6,349)
Total deferred tax assets - current	7,049	7,825	58,660
Noncurrent:			
Allowance for doubtful receivables	1,367	1,867	11,376
Accrued retirement benefits	2,545	2,948	21,179
Impairment loss	21	85	178
Loss on valuation of investment securities	34	38	284
Allowance for investment loss	0	33	3
Reserve for loss on business of affiliates	-	46	-
Others	2,399	2,375	19,963
Sub-total	6,367	7,394	52,985
Valuation allowance	(1,041)	(1,168)	(8,670)
Total deferred tax assets - noncurrent	5,325	6,226	44,314
Total deferred tax assets	12,374	14,052	102,975
Deferred tax liabilities:			
Current:			
Unrealized gain on available-for-sale securities	(121)	(45)	(1,007)
Others	(20)	-	(172)
Total deferred tax liabilities - current	(141)	(45)	(1,179)
Noncurrent:			
Unrealized gain on available-for-sale securities	(485)	(600)	(4,036)
Effect of change in finance lease accounting	(301)	-	(2,511)
Others	(483)	(615)	(4,021)
Total deferred tax liabilities - noncurrent	(1,270)	(1,216)	(10,568)
Total deferred tax liabilities	(1,411)	(1,261)	(11,748)
Net deferred tax assets	¥ 10,962	¥ 12,791	\$ 91,227

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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Statutory tax rate	35.41%	37.79%
Entertainment expenses permanently not deductible for income tax purposes	0.20	0.19
Tax on undistributed profits for a family corporation	0.47	0.62
Per capita inhabitant tax	0.78	0.80
Changes in valuation allowance	(1.16)	0.56
Equity in earnings of affiliates	(0.16)	(0.23)
Adjustment to deferred tax assets due to changes in tax rate	5.89	3.06
Others	(4.04)	0.31
Actual effective tax rate	<u>37.40%</u>	<u>43.14%</u>

The “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 9 of 2015) and the “Act for Partial Revision of the Local Tax Act, etc.” (Act No. 2 of 2015) were promulgated on March 31, 2015, and the corporate tax rate will be reduced from the year beginning on or after April 1, 2015. Consequently, the statutory tax rate used to calculate deferred tax assets and deferred tax liabilities was changed from 35.42% to 32.87% for temporary differences expected to be settled or realized in the year beginning April 1, 2015 and to 32.10% for temporary differences expected to be settled or realized in or after the year beginning April 1, 2016.

As a result of this change, deferred tax assets, after deducting deferred tax liabilities, decreased by ¥957 million (\$7,966 thousand), while unrealized gain on available-for-sale securities increased by ¥59 million (\$498 thousand), as of March 31, 2015 and income taxes - deferred increased by ¥1,017 million (\$8,464 thousand), for the year ended March 31, 2015.

## 10. LEASES

### *Lease transactions as lessor*

Information relating to finance leases of the Group as lessor for the years ended March 31, 2015 and 2014 is summarized as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2015</u>	<u>2014</u>	<u>U.S. Dollars</u>
			<u>2015</u>
Lease payments receivable	¥ 321,931	¥ 317,473	\$ 2,678,968
Estimated residual value	4,979	5,346	41,436
Unearned interest income	(31,596)	(32,598)	(262,929)
Investments in leases	<u>¥ 295,314</u>	<u>¥ 290,221</u>	<u>\$ 2,457,474</u>

The aggregate annual maturities of leases receivable and investments in leases as of March 31, 2015 and 2014 are summarized as follows:

		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
<u>March 31, 2015</u>							
Leases receivable	¥ 29,141	¥ 25,354	¥ 21,198	¥18,354	¥ 9,807	¥15,849	
Investments in leases	91,484	74,867	60,466	44,856	25,232	25,023	
		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
<u>March 31, 2015</u>							
Leases receivable	\$ 242,498	\$210,990	\$176,407	\$152,735	\$ 81,610	\$131,892	
Investments in leases	761,296	623,014	503,172	373,279	209,969	208,236	
		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
<u>March 31, 2014</u>							
Leases receivable	¥ 26,483	¥ 20,164	¥ 16,508	¥12,912	¥10,599	¥ 9,545	
Investments in leases	92,996	73,079	56,660	41,647	26,870	26,219	

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

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Due in 1 year or less	¥ 2,855	¥ 888	\$ 23,759
Due after 1 year	20,472	2,576	170,363
Total	¥ 23,327	¥ 3,465	\$ 194,122

***Lease transactions as lessee***

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

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Due in 1 year or less	¥ 604	¥ 564	\$ 5,030
Due after 1 year	2,367	1,850	19,698
Total	¥ 2,971	¥ 2,414	\$ 24,729



## 11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### *(1) Group Policy for Financial Instruments*

The Group mainly engages in financial businesses, such as leasing, installment sales and loan businesses, and works to diversify its credit risk exposure by avoiding a concentration of major operating receivables on certain industries or companies. In order to cover funds necessary for these businesses, the Group raises funds through bank borrowings, issuance of corporate bonds and commercial papers, and acceptance of excess funds from NTT Group companies. 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 has various derivative transactions only for hedging purposes and not for trading purposes.

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

Installment sales receivable, leases receivable and investments in leases, loans receivable, rents receivable, and other receivables held by the Group are exposed to credit loss due to counterparties’ default and fluctuations in interest rates.

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 amount of cash flows attributed to these assets and liabilities or by using currency swap contracts.

The Group uses hedging derivatives such as interest rate swaps, currency swaps and foreign exchange forward contracts. 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 market risk and credit risk are extremely low 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.

### **(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 implements such procedures as performing ex-ante evaluation and ex-post monitoring and reevaluation of customer credit, securing collateral or guarantees, and addressing troubled receivables, if any. The Credit Analysis Division and the Credit Administration Division as well as relevant sales departments are responsible for such credit management. In addition, the Integrated Risk Management Office measures the credit risk as overall portfolio management of financial instruments, 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 Integrated Risk Management Committee on a regular basis.

##### *Risk of exchange rate fluctuations*

Each transaction denominated in foreign currency is managed to avoid foreign currency risk by matching the 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, 2015 and 2014 is estimated to decrease market value of the Group's net financial assets by ¥113 million (\$948 thousand) and ¥103 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 stipulates purposes of use, authorization and management thereof in order to hedge risks such as fluctuation risks in interest rates and foreign currency exchange rates.

Moreover, the status of derivative transactions is reported to the Executive Committee periodically.

### **(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 differences as of March 31, 2015 and 2014 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, 2015	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 313,636	¥ 313,636	¥ -
Installment sales receivable	55,824		
Less: allowance for doubtful receivables (Note a)	(482)		
	<u>55,342</u>	<u>55,402</u>	<u>60</u>
Leases receivable and investments in leases	403,539		
Less: allowance for doubtful receivables (Note a)	(2,370)		
	<u>401,169</u>	<u>403,191</u>	<u>2,022</u>
Loans receivable	967,036		
Less: allowance for doubtful receivables (Note a)	(33)		
	<u>967,003</u>	<u>967,161</u>	<u>158</u>
Other loans receivable	55,135		
Less: allowance for doubtful receivables (Note a)	(0)		
	<u>55,135</u>	<u>55,226</u>	<u>91</u>
Rents receivable	19,568		
Less: allowance for doubtful receivables (Note a)	(108)		
	<u>19,460</u>	<u>19,571</u>	<u>111</u>
Credit card receivables	48,701		
Less: allowance for doubtful receivables (Note a)	(1,022)		
	<u>47,678</u>	<u>47,678</u>	<u>-</u>
Billing receivables	142,412		
Less: allowance for doubtful receivables (Note a)	(21,210)		
	<u>121,201</u>	<u>121,201</u>	<u>-</u>
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	71,127	71,127	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	4,562		
Less: allowance for doubtful receivables (Note a)	(4,550)		
	<u>11</u>	<u>11</u>	<u>-</u>
Total assets	<u>¥ 2,051,760</u>	<u>¥ 2,054,203</u>	<u>¥ 2,443</u>
Trade notes and accounts payable	¥ 22,341	¥ 22,341	¥ -
Short-term bank loans	34,000	34,000	-
Commercial papers	206,993	206,993	-
Lease obligations	822	786	(35)
Accounts payable - other	432,857	432,860	2
Deposits received	302,048	302,048	-
Deposits received from shareholders, directors or employees	427,112	427,112	-
Bonds payable	264,689	286,035	21,345
Long-term borrowings	323,045	323,757	711
Total liabilities	<u>¥ 2,013,911</u>	<u>¥ 2,035,935</u>	<u>¥ 22,024</u>
Derivative transactions (Note b):			
Not qualifying for hedge accounting	¥ (85)	¥ (85)	¥ -
Qualifying for hedge accounting	389,701	19,625	-
Total derivative transactions	<u>¥ -</u>	<u>¥ 19,540</u>	<u>¥ -</u>

March 31, 2015	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	\$ 2,609,937	\$ 2,609,937	\$ -
Installment sales receivable	464,550		
Less: allowance for doubtful receivables (Note a)	(4,015)		
	<u>460,534</u>	<u>461,034</u>	<u>500</u>
Leases receivable and investments in leases	3,358,073		
Less: allowance for doubtful receivables (Note a)	(19,723)		
	<u>3,338,350</u>	<u>3,355,178</u>	<u>16,828</u>
Loans receivable	8,047,237		
Less: allowance for doubtful receivables (Note a)	(277)		
	<u>8,046,960</u>	<u>8,048,277</u>	<u>1,317</u>
Other loans receivable	458,810		
Less: allowance for doubtful receivables (Note a)	(1)		
	<u>458,808</u>	<u>459,566</u>	<u>757</u>
Rents receivable	162,838		
Less: allowance for doubtful receivables (Note a)	(899)		
	<u>161,939</u>	<u>162,867</u>	<u>928</u>
Credit card receivables	405,269		
Less: allowance for doubtful receivables (Note a)	(8,510)		
	<u>396,759</u>	<u>396,759</u>	<u>-</u>
Billing receivables	1,185,094		
Less: allowance for doubtful receivables (Note a)	(176,507)		
	<u>1,008,587</u>	<u>1,008,587</u>	<u>-</u>
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	591,886	591,886	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	37,965		
Less: allowance for doubtful receivables (Note a)	(37,869)		
	<u>95</u>	<u>95</u>	<u>-</u>
Total assets	<u>\$ 17,073,812</u>	<u>\$ 17,094,144</u>	<u>\$ 20,331</u>
Trade notes and accounts payable	\$ 185,917	\$ 185,917	\$ -
Short-term bank loans	282,932	282,932	-
Commercial papers	1,722,505	1,722,505	-
Lease obligations	6,840	6,546	(294)
Accounts payable - other	3,602,043	3,602,065	21
Deposits received	2,513,512	2,513,512	-
Deposits received from shareholders, directors or employees	3,554,231	3,554,231	-
Bonds payable	2,202,628	2,380,253	177,625
Long-term borrowings	2,688,241	2,694,163	5,922
Total liabilities	<u>\$ 16,758,853</u>	<u>\$ 16,942,128</u>	<u>\$ 183,274</u>
Derivative transactions (Note b):			
Not qualifying for hedge accounting	\$ (712)	\$ (712)	\$ -
Qualifying for hedge accounting	3,242,919	163,318	-
Total derivative transactions	<u>\$ -</u>	<u>\$ 162,605</u>	<u>\$ -</u>

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

March 31, 2014	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 373,295	¥ 373,295	¥ -
Installment sales receivable	37,221		
Less: allowance for doubtful receivables (Note a)	(434)		
	<u>36,787</u>	<u>36,819</u>	<u>32</u>
Leases receivable and investments in leases	376,016		
Less: allowance for doubtful receivables (Note a)	(3,742)		
	<u>372,274</u>	<u>375,119</u>	<u>2,845</u>
Loans receivable	948,401		
Less: allowance for doubtful receivables (Note a)	(2,453)		
	<u>945,947</u>	<u>947,532</u>	<u>1,584</u>
Other loans receivable	47,288		
Less: allowance for doubtful receivables (Note a)	(273)		
	<u>47,015</u>	<u>47,109</u>	<u>94</u>
Rents receivable	18,308		
Less: allowance for doubtful receivables (Note a)	(142)		
	<u>18,165</u>	<u>18,295</u>	<u>129</u>
Credit card receivables	41,195		
Less: allowance for doubtful receivables (Note a)	(1,036)		
	<u>40,158</u>	<u>40,158</u>	<u>-</u>
Billing receivables	153,835		
Less: allowance for doubtful receivables (Note a)	(22,605)		
	<u>131,229</u>	<u>131,229</u>	<u>-</u>
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	55,833	55,833	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	6,005		
Less: allowance for doubtful receivables (Note a)	(6,003)		
	<u>2</u>	<u>2</u>	<u>-</u>
Total assets	<u>¥ 2,020,705</u>	<u>¥ 2,025,392</u>	<u>¥ 4,686</u>
Trade notes and accounts payable	¥ 22,874	¥ 22,874	¥ -
Short-term bank loans	90,127	90,127	-
Commercial papers	54,999	54,999	-
Lease obligations	890	836	(53)
Accounts payable - other	423,178	423,179	1
Deposits received	267,749	267,749	-
Deposits received from shareholders, directors or employees	687,387	687,387	-
Bonds payable	225,467	238,040	12,572
Long-term borrowings	200,467	203,353	2,886
Total liabilities	<u>¥ 1,973,142</u>	<u>¥ 1,988,548</u>	<u>¥ 15,406</u>
Derivative transactions (Note b):			
Qualifying for hedge accounting	¥ 403,689	¥ 13,401	¥ -
Total derivative transactions	<u>¥ -</u>	<u>¥ 13,401</u>	<u>¥ -</u>

- 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. 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 3 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 Bank Loans, Commercial Papers 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 12 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, 2015 and 2014 are summarized as follows. These instruments are excluded from investments in venture businesses, securities and investment securities in the above table.

Classification	Type	Carrying Amount		
		Millions of Yen		Thousands of U.S. Dollars
		2015	2014	2015
Investments in affiliates	Unlisted equity securities	¥ 3,767	¥ 198	\$ 31,349
Available-for-sale securities	Unlisted equity securities	7,466	6,867	62,130
	Investments in partnerships	955	1,222	7,947
	Total available-for-sale securities	¥ 8,421	¥ 8,089	\$ 70,077

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

March 31, 2015	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	¥ 313,636	¥ -	¥ -	¥ -	¥ -	¥ -
Installment sales receivable (Note a)	14,007	12,234	10,087	6,678	4,135	10,513
Leases receivable and investments in leases (Notes a and b)	120,626	100,222	81,665	63,211	35,039	40,873
Loans receivable (Note a)	517,213	82,161	84,092	90,025	119,579	73,963
Other receivables (Note a)	17,074	11,958	6,305	4,385	5,904	9,507
Rents receivable (Note a)	3,143	748	1,367	2,170	3,353	8,784
Credit card receivables (Note a)	48,701	-	-	-	-	-
Billing receivables (Note a)	142,412	-	-	-	-	-
Investments in venture businesses, securities and investment securities: Available-for-sale securities with contractual maturities (Note a)	11,801	7,204	3,142	8,270	6,322	15,994

March 31, 2015	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	\$ 2,609,937	\$ -	\$ -	\$ -	\$ -	\$ -
Installment sales receivable (Note a)	116,561	101,812	83,945	55,579	34,414	87,486
Leases receivable and investments in leases (Notes a and b)	1,003,795	834,004	679,579	526,014	291,579	340,129
Loans receivable (Note a)	4,304,014	683,713	699,781	749,152	995,088	615,487
Other receivables (Note a)	142,084	99,509	52,468	36,494	49,132	79,120
Rents receivable (Note a)	26,159	6,228	11,383	18,060	27,903	73,102
Credit card receivables (Note a)	405,269	-	-	-	-	-
Billing receivables (Note a)	1,185,094	-	-	-	-	-
Investments in venture businesses, securities and investment securities: Available-for-sale securities with contractual maturities (Note a)	98,204	59,954	26,152	68,825	52,608	133,094

- Notes: a. The amount does not include receivables from companies in bankruptcy and reorganization and receivables deemed to be uncollectible.  
b. Lease payments to be received including interest are presented as leases receivable and investments in leases.



March 31, 2014	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	¥ 373,295	¥ -	¥ -	¥ -	¥ -	¥ -
Installment sales receivable (Note a)	9,860	8,048	6,583	5,168	2,653	6,050
Leases receivable and investments in leases (Notes a and b)	119,479	93,243	73,169	54,559	37,469	35,764
Loans receivable (Note a)	368,256	324,129	69,775	56,878	78,764	50,596
Other receivables (Note a)	17,419	4,457	10,225	2,102	3,774	9,307
Rents receivable (Note a)	3,427	742	1,515	2,314	2,949	7,359
Credit card receivables (Note a)	41,195	-	-	-	-	-
Billing receivables (Note a)	153,835	-	-	-	-	-
Investments in venture businesses, securities and investment securities: Available-for-sale securities with contractual maturities (Note a)	4,008	10,989	6,901	2,349	4,428	9,752

- Notes: a The amount does not include receivables from companies in bankruptcy and reorganization and receivables deemed to be uncollectible.  
b. 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 6 on short-term and long-term debt.

## 12. 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, 2015 (excluding hedging transactions) are as follows. Fair value is quoted based on the price information from the counterparty financial institution.

March 31, 2015	Millions of Yen			
	Contract Amount		Fair Value	Unrealized Gain/(Loss)
Total	Due after 1 Year			
Interest rate swaps (Pay fixed rate, receive variable rate)	¥ 741	¥ 741	¥ (3)	¥ (3)
Foreign exchange forward contracts selling position, U.S. Dollars	483	483	(81)	(81)
Total	¥ 1,225	¥ 1,225	¥ (85)	¥ (85)

	Thousands of U.S. Dollars			
	Contract Amount		Fair Value	Unrealized Gain/(Loss)
	Total	Due after 1 Year		
<u>March 31, 2015</u>				
Interest rate swaps (Pay fixed rate, receive variable rate)	\$ 6,170	\$ 6,170	\$ (30)	\$ (30)
Foreign exchange forward contracts selling position, U.S. Dollars	4,025	4,025	(682)	(682)
Total	<u>\$ 10,195</u>	<u>\$ 10,195</u>	<u>\$ (712)</u>	<u>\$ (712)</u>

The Group did not have any derivative transactions outstanding (excluding hedging transactions) as of March 31, 2014.

Derivative instruments which qualify as hedging instruments as of March 31, 2015 and 2014 are summarized as follows. Fair value is quoted based on the price information from the counterparty financial institution.

	Hedged Item	Millions of Yen		
		Contract Amount		Fair Value
		Total	Due after 1 Year	
<u>March 31, 2015</u>				
Interest rate swaps (Pay fixed rate, receive variable rate) (Note a)	Long-term borrowings	¥ 313,614	¥ 64,687	¥ (1,056)
	Loans receivable	36,557	26,557	(325)
Currency swaps (Note b)	Bonds payable	39,530	39,530	21,008
Total		<u>¥ 389,701</u>	<u>¥ 130,774</u>	<u>¥ 19,625</u>

	Hedged Item	Thousands of U.S. Dollars		
		Contract Amount		Fair Value
		Total	Due after 1 Year	
<u>March 31, 2015</u>				
Interest rate swaps (Pay fixed rate, receive variable rate) (Note a)	Long-term borrowings	\$2,609,753	\$ 538,297	\$ (8,789)
	Loans receivable	304,215	221,000	(2,712)
Currency swaps (Note b)	Bonds payable	328,950	328,950	174,820
Total		<u>\$3,242,919</u>	<u>\$ 1,088,248</u>	<u>\$ 163,318</u>

	Hedged Item	Millions of Yen		
		Contract Amount		Fair Value
		Total	Due after 1 Year	
<u>March 31, 2014</u>				
Interest rate swaps (Pay fixed rate, receive variable rate) (Note a)	Long-term borrowings	¥ 297,634	¥ 284,434	¥ (39)
	Loans receivable	62,225	30,725	(172)
Currency swaps (Note b)	Bonds payable	43,830	39,530	13,613
Total		<u>¥ 403,689</u>	<u>¥ 354,689</u>	<u>¥ 13,401</u>

- Notes:
- 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.
  - 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.

### 13. PLEDGED ASSETS AND COLLATERAL

As of March 31, 2015 and 2014 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Assets pledged as collateral:			
Leases receivable and investments in leases	¥ 6,200	¥ 7,776	\$ 51,600
Rents receivable	1,679	1,698	13,976
Leased assets	19,800	4,880	164,770
Total	<u>¥ 27,680</u>	<u>¥ 14,356</u>	<u>\$ 230,347</u>
Corresponding debt:			
Current portion of long-term borrowings	¥ 1,105	¥ 517	\$ 9,198
Other under current liabilities (Payables associated with securitization of receivables)	8,000	10,000	66,572
Long-term borrowings	14,596	967	121,465
Other under long-term liabilities (Long-term deposits received)	8	37	70
Total	<u>¥ 23,710</u>	<u>¥ 11,522</u>	<u>\$ 197,307</u>

As of March 31, 2015, the Group had ¥4,378 million (\$36,436 thousand) of notes receivable which was obtained for installment sales.

### 14. COMMITMENTS AND CONTINGENCIES

As of March 31, 2015 and 2014, the Group had the following contingent liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Guarantee in ordinary course of business	¥ 4,390	¥ 5,212	\$ 36,536
Unexecuted loan commitments (Note)	965,878	788,296	8,037,601

Note: The Group enters into loan commitment agreements with customers. As of March 31, 2015 and 2014, loan commitments given to customers were ¥1,150,476 million (\$9,573,740 thousand) and ¥1,064,379 million, of which ¥184,597 million (\$1,536,138 thousand) and ¥276,082 million had been executed, respectively.

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.

## 15. COMPREHENSIVE INCOME

Reclassification adjustments and related income tax effect on other comprehensive income for the years ended March 31, 2015 and 2014 are as follows:

	Millions of Yen		Thousands of
	2015	2014	U.S. Dollars
			2015
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 257	¥ 1,636	\$ 2,142
Reclassification adjustments	(198)	(1,050)	(1,652)
Amount before income tax effect	58	586	489
Income tax effect	39	(208)	330
Unrealized gain on available-for-sale securities	98	377	819
Foreign currency translation adjustments:			
Gains arising during the year	719	302	5,988
Foreign currency translation adjustments	719	302	5,988
Remeasurements of defined benefit plans:			
Gains arising during the year	1,033	-	8,597
Reclassification adjustments	1	-	14
Amount before income tax effect	1,034	-	8,611
Income tax effect	(326)	-	(2,717)
Remeasurements of defined benefit plans	708	-	5,894
Share of other comprehensive income of affiliates accounted for using equity method:			
Gains arising during the year	191	231	1,594
Total other comprehensive income	¥ 1,718	¥ 911	\$ 14,296

## 16. 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.

***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 is based on the operating income of each reportable segment. The amounts of intersegment revenue and transfers are determined based on terms and conditions of general business practice reflecting the market prices.

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

The following tables represent information about revenue and profit by reportable segment for the years ended March 31, 2015 and 2014. Assets are not allocated to reportable segments.

	Millions of Yen					
	2015					
	Reportable Segment					Total
Lease	Loan	Investment	Credit Card	Billing		
Revenue from external customers	¥ 172,291	¥ 7,867	¥ 2,857	¥ 5,093	¥ 208,821	¥ 396,931
Intersegment revenue or transfers	-	-	-	28,379	321	28,700
Total	¥ 172,291	¥ 7,867	¥ 2,857	¥ 33,472	¥ 209,142	¥ 425,631
Segment profit	¥ 12,942	¥ 4,649	¥ 1,590	¥ 2,424	¥ 3,768	¥ 25,376

	Thousands of U.S. Dollars					
	2015					
	Reportable Segment					Total
Lease	Loan	Investment	Credit Card	Billing		
Revenue from external customers	\$ 1,433,730	\$ 65,470	\$ 23,782	\$ 42,386	\$ 1,737,715	\$ 3,303,085
Intersegment revenue or transfers	-	-	-	236,157	2,671	238,828
Total	\$ 1,433,730	\$ 65,470	\$ 23,782	\$ 278,543	\$ 1,740,386	\$ 3,541,914
Segment profit	\$ 107,703	\$ 38,691	\$ 13,238	\$ 20,178	\$ 31,359	\$ 211,172

Millions of Yen						
2014						
Reportable Segment						
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	¥ 169,828	¥ 6,934	¥ 3,778	¥ 5,057	¥ 216,022	¥ 401,622
Intersegment revenue or transfers	-	-	-	25,989	228	26,218
Total	¥ 169,828	¥ 6,934	¥ 3,778	¥ 31,047	¥ 216,251	¥ 427,840
Segment profit	¥ 13,598	¥ 4,031	¥ 2,725	¥ 2,405	¥ 3,452	¥ 26,212

***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
	2015	2014	2015
Revenue:			
Reportable segments total	¥ 425,631	¥ 427,840	\$ 3,541,914
Intersegment eliminations	(28,700)	(26,218)	(238,828)
Revenue in the consolidated statements of income	¥ 396,931	¥ 401,622	\$ 3,303,085
Segment profit:			
Reportable segments total	¥ 25,376	¥ 26,212	\$ 211,172
Corporate expenses (Note)	(8,466)	(7,944)	(70,452)
Operating income in the consolidated statements of income	¥ 16,910	¥ 18,267	\$ 140,720

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 about revenue by geographical area for the years ended March 31, 2015 and 2014 are omitted, as revenue from external customers in Japan exceeds 90% of consolidated revenue.

Information about property and equipment by geographical area as of March 31, 2015 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2015	2015
Property and equipment:		
Japan	¥ 28,054	\$ 233,453
Asia	11,508	95,765
Total	¥ 39,562	\$ 329,218

Disclosures on information about property and equipment by geographical area as of March 31, 2014 are omitted, as property and equipment in Japan exceeds 90% of property and equipment on the consolidated balance sheet.

Information about revenue by major customer for the year ended March 31, 2015 is as follows:

	Revenue		Related Segments
	Millions of Yen	Thousands of U.S. Dollars	
NTT DOCOMO, INC.	¥ 97,976	\$ 815,315	Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION	49,834	414,701	Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	48,742	405,610	Lease and Billing

Information about revenue by major customer for the year ended March 31, 2014 is as follows:

	Revenue		Related Segments
	Millions of Yen		
NTT DOCOMO, INC.	¥ 100,095		Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION	57,818		Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	53,953		Lease and Billing

***Loss on impairment of long-lived assets by reportable segment***

Disclosures on information about loss on impairment of long-lived assets by reportable segment are omitted, as there is no applicable information to disclose.

***Goodwill by reportable segment***

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

**17. RELATED PARTY TRANSACTIONS**

Transactions and account balances of the Group with NIPPON TELEGRAPH AND TELEPHONE CORPORATION, which had a 92.17% (direct) and 7.82% (indirect) ownership share in the Company in 2015 and 2014, as of and for the years ended March 31, 2015 and 2014 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Transactions:			
Acceptance of excess funds	¥ 85,244	¥ 82,388	\$ 709,366
Execution of loans	312,769	311,405	2,602,723
Account balances:			
Loans receivable	286,000	390,000	2,379,961
Deposits received from shareholders, directors or employees	4	2,340	36

In addition to the above, the Group enters into several other transactions with related parties that are companies under common control. Specifically, significant transactions and related account balances with 10 other NTT Group companies as of and for the years ended March 31, 2015 and 2014 are summarized as follows:

	Millions of Yen		Thousands of
	2015	2014	U.S. Dollars
Transactions:			2015
Acceptance of excess funds	¥ 464,707	¥ 477,198	\$ 3,867,082
Execution of loans	283,736	178,714	2,361,127
Transactions related to transferred receivables	5,817,796	5,670,115	48,413,053
Billing-related revenue	200,226	207,899	1,666,190
Account balances:			
Billing receivables	19,512	14,292	162,373
Accounts payable - other	395,834	381,504	3,293,956
Deposits received	236,576	202,296	1,968,680
Deposits received from shareholders, directors or employees	171,282	444,857	1,425,338
Current portion of long-term deposits received from shareholders, directors or employees	240,000	-	1,997,170
Loans receivable	354,749	265,621	2,952,062

## 18. SUBSEQUENT EVENTS

### *Appropriations of Retained Earnings*

The following appropriation of retained earnings at March 31, 2015 was approved at the Company's shareholders meeting held on June 19, 2015:

	Millions of Yen		Thousands of
			U.S. Dollars
Year-end cash dividends, ¥79,920.00 (\$665.05) per share	¥ 4,105		\$ 34,160

\* \* \* \* \*



## **Independent Auditor's Report**

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, 2015 and 2014, and the consolidated statements of income, comprehensive income, changes in equity and 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 referred to above present fairly, in all material respects, the financial position of NTT FINANCE CORPORATION and its consolidated subsidiaries as at March 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2015 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 19, 2015  
Tokyo, Japan