

Consolidated Financial Statements

NTT FINANCE CORPORATION and Consolidated Subsidiaries

For the Years ended March 31,
2017 and 2016
Together with Independent Auditor's Report

NTT FINANCE CORPORATION and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2017 and 2016

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)
	2017	2016	2017		2017	2016	2017
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents (Note 11)	¥ 376,635	¥ 530,173	\$ 3,357,118	Short-term bank loans (Notes 6 and 11)	¥ 144,435	¥ 43,283	\$ 1,287,420
Lease receivables and investments in leases (Notes 10, 11, and 13)	481,356	437,198	4,290,545	Current portion of long-term borrowings (Notes 6, 11 and 13)	30,988	45,233	276,212
Trade accounts receivable (Note 11):				Current portion of bonds (Notes 6 and 11)	54,522	61,124	485,986
Installment sales (Note 13)	84,227	72,770	750,758	Commercial papers (Notes 6 and 11)	15,000	-	133,701
Loans (Note 17)	1,321,243	900,854	11,776,842	Lease obligations (Notes 6, 10 and 11)	1,774	680	15,813
Other loans (Note 13)	44,792	55,561	399,260	Trade notes and accounts payable (Note 11)	20,184	20,702	179,916
Rents (Note 13)	22,160	20,875	197,525	Accounts payable - other (Notes 11 and 17)	437,274	434,456	3,897,620
Credit cards	49,029	48,942	437,019	Accrued income taxes	239	1,957	2,137
Billing (Note 17)	113,626	128,425	1,012,800	Unearned profit on installment sales	2,762	2,352	24,624
Allowance for doubtful receivables	(19,738)	(23,783)	(175,934)	Deposits received (Notes 11 and 17)	141,220	145,778	1,258,761
Investments in venture businesses (Notes 3 and 11)	2,230	2,044	19,879	Deposits received from shareholders, directors or employees (Notes 11 and 17)	910,810	817,546	8,118,466
Securities (Notes 3 and 11)	1,905	5,811	16,980	Asset retirement obligations	-	226	-
Deferred tax assets (Note 9)	1,029	3,641	9,178	Other (Notes 6 and 13)	14,743	16,325	131,411
Other	36,725	36,978	327,350				
Total current assets	2,515,224	2,219,493	22,419,328	Total current liabilities	1,773,956	1,589,669	15,812,075
PROPERTY AND EQUIPMENT, NET (Note 4):				LONG-TERM LIABILITIES:			
Leased assets (Note 13)	30,710	32,591	273,732	Bonds	236,388	162,658	2,107,036
Assets held for own use	4,205	4,333	37,489	Long-term borrowings (Notes 6, 11 and 13)	495,348	463,109	4,415,260
Total property and equipment, net	34,916	36,925	311,222	Lease obligations (Notes 6 and 11)	18	23	166
INTANGIBLE ASSETS—Assets held for own use	2,169	3,240	19,333	Accrued directors' retirement benefits	45	46	403
				Provision for loss on system use agreements	3,180	-	28,344
INVESTMENTS AND OTHER ASSETS:				Defined benefit liability (Note 7)	23,497	24,367	209,444
Investment securities (Notes 3, 5 and 11)	99,745	86,831	889,077	Deferred tax liabilities (Note 9)	108	84	964
Defined benefit asset (Note 7)	201	203	1,799	Asset retirement obligations	2,116	2,170	18,866
Deferred tax assets (Note 9)	8,912	8,707	79,442	Other (Note 13)	12,398	10,592	110,512
Other (Notes 5 and 11)	12,171	15,358	108,489				
Allowance for doubtful receivables (Note 11)	(3,252)	(3,369)	(28,987)	Total long-term liabilities	773,101	663,052	6,891,000
Total investments and other assets	117,779	107,732	1,049,821	Total liabilities	2,547,058	2,252,721	22,703,075
				NET ASSETS:			
				Shareholders' equity (Note 8 and 18):			
				Common stock—authorized, 80,000 shares; issued, 51,960 shares in 2017 and 2016	16,770	16,770	149,487
				Capital surplus	15,950	15,950	142,173
				Retained earnings	91,270	83,292	813,538
				Treasury stock; 595 shares in 2017 and 2016	(1,126)	(1,126)	(10,045)
				Total shareholders' equity	122,865	114,887	1,095,153
				Accumulated other comprehensive income/(loss):			
				Unrealized gain on available-for-sale securities	1,022	1,141	9,117
				Foreign currency translation adjustments	300	498	2,676
				Remeasurements of defined benefit plans	(1,466)	(2,637)	(13,070)
				Total accumulated other comprehensive income	(143)	(996)	(1,276)
				Non-controlling interests	308	778	2,753
				Total net assets	123,030	114,669	1,096,630
TOTAL ASSETS	¥ 2,670,089	¥ 2,367,390	\$ 23,799,706	TOTAL LIABILITIES AND NET ASSETS	¥ 2,670,089	¥ 2,367,390	\$ 23,799,706

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Consolidated Statements of Income
Years Ended March 31, 2017 and 2016**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
REVENUE:	¥ 391,892	¥ 383,460	\$ 3,493,110
COST OF SALES	248,714	229,916	2,216,902
Gross profit	143,177	153,543	1,276,208
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	127,306	137,023	1,134,735
Operating income	15,871	16,519	141,472
OTHER INCOME:			
Interest income	0	0	2
Dividend income	29	28	258
Equity in earnings of affiliates	218	117	1,947
Gain on bad debts recovered	431	391	3,845
Other	50	47	452
Total other income	729	585	6,506
OTHER EXPENSES:			
Interest expense	157	229	1,401
Bond issuance costs	350	-	3,122
Foreign exchange loss	11	527	100
Loss on retirement of assets held for own use	153	241	1,364
Other	41	16	374
Total other expenses	713	1,015	6,363
EXTRAORDINARY LOSSES:			
Loss on valuation of investment securities	1,136	3,491	10,129
Head office transfer cost	709	-	6,322
Total extraordinary losses	1,845	3,491	16,451
PROFIT BEFORE TAXES	14,042	12,597	125,162
INCOME TAXES (Note 9):			
Current	1,089	4,985	9,713
Deferred	1,969	346	17,553
Total income taxes	¥ 3,059	¥ 5,331	\$ 27,266

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Consolidated Statements of Income
Years Ended March 31, 2017 and 2016**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
PROFIT	¥ 10,983	¥ 7,265	\$ 97,896
(LOSS)/PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(108)	77	(970)
PROFIT ATTRIBUTABLE TO OWNERS OF PARENT	¥ 11,091	¥ 7,188	\$ 98,867
	Yen		U.S. Dollars (Note 1)
	2017	2016	2017
PER SHARE OF COMMON STOCK:			
Weighted average number of shares outstanding	51,365	51,365	
Basic earnings per share	¥ 215,943.79	¥ 139,949.15	\$ 1,924.80
Cash dividends applicable to the year (Note 18)	215,943.00	60,620.00	1,924.79

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Consolidated Statements of Comprehensive Income
Years Ended March 31, 2017 and 2016**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
PROFIT	¥ 10,983	¥ 7,265	\$ 97,896
OTHER COMPREHENSIVE INCOME/(LOSS) (Note 15):			
Net unrealized gain/(loss) on available-for-sale securities	(119)	(133)	(1,060)
Foreign currency translation adjustments	(26)	(364)	(237)
Remeasurements of defined benefit plans	1,171	(3,454)	10,441
Share of other comprehensive income of affiliates accounted for using equity method	(172)	(105)	(1,533)
Total other comprehensive income/(loss)	853	(4,058)	7,609
COMPREHENSIVE INCOME/(LOSS)	¥ 11,836	¥ 3,207	\$ 105,506
Comprehensive income/(loss) attributable to:			
Owners of parent	¥ 11,945	¥ 3,130	\$ 106,477
Non-controlling interests	(108)	77	(970)

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2017 and 2016

	Millions of Yen											
	Shareholders' Equity					Accumulated Other Comprehensive Income						
	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	Non- controlling Interests	Total Net Assets
BALANCE, APRIL 1, 2015	51,365	¥ 16,770	¥ 15,950	¥ 80,209	¥ (1,126)	¥ 111,803	¥ 1,275	¥ 968	¥ 816	¥ 3,061	¥ 701	¥ 115,566
Cash dividends, ¥79,920.00 per share				(4,105)		(4,105)						(4,105)
Profit attributable to owners of parent				7,188		7,188						7,188
Net changes of items other than shareholders' equity							(133)	(469)	(3,454)	(4,058)	77	(3,980)
BALANCE, MARCH 31, 2016	51,365	16,770	15,950	83,292	(1,126)	114,887	1,141	498	(2,637)	(996)	778	114,669
Cash dividends, ¥60,620.00 per share				(3,113)		(3,113)						(3,113)
Profit attributable to owners of parent				11,091		11,091						11,091
Net changes of items other than shareholders' equity							(119)	(198)	1,171	853	(469)	383
BALANCE, MARCH 31, 2017	51,365	¥ 16,770	¥ 15,950	¥ 91,270	¥ (1,126)	¥ 122,865	¥ 1,022	¥ 300	¥ (1,466)	¥ (143)	¥ 308	¥ 123,030

	Thousands of U.S. Dollars (Note 1)											
	Shareholders' Equity					Accumulated Other Comprehensive Income						
	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	Non- controlling Interests	Total Net Assets	
BALANCE, APRIL 1, 2016	\$ 149,487	\$ 142,173	\$ 742,424	\$ (10,045)	\$ 1,024,040	\$ 10,178	\$ 4,447	\$ (23,511)	\$ (8,886)	\$ 6,942	\$ 1,022,096	
Cash dividends, \$540.33 per share			(27,754)		(27,754)						(27,754)	
Profit attributable to owners of parent			98,867		98,867						98,867	
Net changes of items other than shareholders' equity						(1,060)	(1,770)	10,441	7,609	(4,188)	3,420	
BALANCE, MARCH 31, 2017	\$ 149,487	\$ 142,173	\$ 813,538	\$ (10,045)	\$ 1,095,153	\$ 9,117	\$ 2,676	\$ (13,070)	\$ (1,276)	\$ 2,753	\$ 1,096,630	

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Profit before taxes	¥ 14,042	¥ 12,597	\$ 125,162
Adjustments for:			
Depreciation of leased assets and assets held for own use	5,195	5,006	46,306
Loss on retirement of leased assets and assets held for own use	453	422	4,045
Increase/(decrease) in allowance for investment loss	-	(1)	-
(Increase)/decrease in defined benefit asset	(82)	473	(732)
Increase/(decrease) in defined benefit liability	899	11,164	8,018
Increase/(decrease) in accrued directors' retirement benefits	(1)	(0)	(11)
Increase/(decrease) in allowance for doubtful receivables	(4,162)	(2,637)	(37,104)
Increase/(decrease) in provision for loss on system use agreements	3,180	-	28,344
Interest and dividend income	(29)	(29)	(260)
Financing costs and interest expense	6,334	6,108	56,465
Foreign exchange (gain)/loss	(834)	527	(7,442)
Equity in (earnings)/losses of affiliates	(218)	(117)	(1,947)
(Gain)/loss on valuation of investment securities	1,143	3,494	10,195
(Gain)/loss on sales of investment securities	(5)	-	(47)
Bond issuance costs	350	-	3,122
(Increase)/decrease in trade accounts receivable - installment sales	(11,457)	(15,112)	(102,126)
(Increase)/decrease in lease receivables and investments in leases	(44,166)	(33,604)	(393,678)
(Increase)/decrease in trade accounts receivable - loans	(420,732)	62,120	(3,750,178)
(Increase)/decrease in trade accounts receivable - other loans	10,744	(912)	95,766
(Increase)/decrease in trade accounts receivable - rents	(1,284)	(1,307)	(11,450)
(Increase)/decrease in trade accounts receivable - credit cards	(87)	(240)	(777)
(Increase)/decrease in trade accounts receivable - billing	14,799	13,987	131,914
(Increase)/decrease in investments in venture businesses	16	(129)	151
(Increase)/decrease in other securities to earn financial income for operating purpose	(10,641)	(17,068)	(94,850)
Purchases of leased assets	(2,122)	(876)	(18,916)
Increase/(decrease) in trade notes and accounts payable	(517)	(1,639)	(4,613)
Increase/(decrease) in accounts payable - other	2,817	1,599	25,112
Other—net	21,087	(11,704)	187,965
Subtotal	(415,279)	32,119	(3,701,569)
Interest and dividend income received	217	232	1,938
Interest expense paid	(5,614)	(4,780)	(50,043)
Income taxes paid	(4,323)	(5,839)	(38,535)
Net cash (used in)/provided by operating activities	¥ (424,999)	¥ 21,732	\$ (3,788,210)

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Consolidated Statements of Cash Flows
Years Ended March 31, 2017 and 2016**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Net cash (used in)/provided by operating activities	¥ (424,999)	¥ 21,732	\$ (3,788,210)
INVESTING ACTIVITIES:			
Proceeds from withdrawal of negotiable certificates of deposit	-	2,000	-
Proceeds from sales and redemption of investment securities	8	-	74
Payments for purchases of investments in affiliates	-	(33)	-
Payments for purchases of assets held for own use	(1,922)	(1,432)	(17,132)
Payments for purchases of investments in capital	-	(1,500)	-
Proceeds from redemption of investments in capital	3,187	1,537	28,412
Other—net	(276)	(1,067)	(2,466)
Net cash provided by/(used in) investing activities	997	(494)	8,888
FINANCING ACTIVITIES:			
Increase/(decrease) in short-term bank loans	96,374	9,867	859,025
Increase/(decrease) in commercial papers	15,000	(206,993)	133,701
Increase in long-term borrowings	72,534	258,102	646,528
Repayments of long-term borrowings	(49,098)	(46,956)	(437,636)
Increase/(decrease) in payables associated with securitization of receivables	(2,500)	(5,500)	(22,283)
Proceeds from issuance of bonds	127,979	6,057	1,140,735
Redemption of bonds	(61,046)	(45,000)	(544,138)
Cash dividends paid	(3,113)	(4,105)	(27,754)
Increase/(decrease) in deposits received	74,647	471,093	665,364
Repayments of long-term deposits received	(400)	(240,000)	(3,565)
Other—net	(10)	(25)	(91)
Net cash provided by financing activities	270,365	196,541	2,409,886
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	99	(1,241)	882
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(153,537)	216,536	(1,368,552)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	530,173	313,636	4,725,671
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 376,635	¥ 530,173	\$ 3,357,118

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Years Ended March 31, 2017 and 2016

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 ¥112.19 to \$1.00, the approximate rate of exchange at March 31, 2017, 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, 2017 include the accounts of the Company and its 12 significant subsidiaries, such as NTTL Holdings, Inc. (together, the “Group”). The silent partnership operated by Owl Ltd. is excluded from the scope of consolidation due to the liquidation and the decreased materiality resulting from the termination of business.

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

Investment in 107 non-consolidated subsidiaries are stated at cost and are excluded from the scope of applying the equity method of accounting, including 82 operators under silent partnership agreements whose profit/loss and assets do not vest in operators, and 25 other non-consolidated subsidiaries due to their immaterial effect to the consolidated financial statements even though the equity method of accounting had been applied.

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 straight-line method. 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 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. **Provision for Loss on System Use Agreements**—Provision for loss on system use agreements is recognized based on the estimated loss amount as of the balance sheet date to provide for the loss associated with unavoidable expenses incurring for remaining periods of system use agreements related to the telephone fee combined services.

(Additional information)

Demand for the telephone fee combined services in the billing business of the Company is decreasing due to the changes in the business environment such as new services provided by other telecommunication companies. This decreasing demand leads to decline in system utilization related to the telephone fee combined services. On the other hand, the respective system use agreements incur payment obligations for certain usage fees for the remaining agreement periods irrespective of the system utilization. It becomes obvious that the burden of system usage fees exceeding the expected revenue in the remaining contract period will result in a loss.

Based on this situation, provision for loss on system use agreements was recognized in an amount that was reasonably estimated by deducting the unavoidable future costs associated with the system use agreements from the corresponding total expected revenue.

As the result, provision for loss on system use agreements was recorded in the amount of ¥3,180 million (\$28,344 thousand), and gross profit, operating income and profit before taxes decreased by the same amount for the fiscal year ended March 31, 2017.

- 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 earnings per share is computed by dividing profit attributable to owners of parent by the weighted-average number of common shares outstanding for the period.

Diluted earnings per share reflects the potential dilution that could occur if stock acquisition rights were exercised into common stock. Diluted earnings 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 earnings 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 respective year.

- s. **Changes in Accounting Policies**

Depreciation method for property, plant and equipment

Previously, the Company had principally adopted the declining-balance method as the depreciation method for property, plant and equipment except for buildings. However, the Company has adopted the straight-line method of depreciation from the fiscal year ended March 31, 2017.

The background of this change was that NIPPON TELEGRAPH AND TELEPHONE CORPORATION (“NTT”), the parent company of the Company, and its subsidiaries in Japan switched the depreciation method for property, plant and equipment from the declining-balance method to the straight-line method from the fiscal year ended March 31, 2017. Therefore, the Company reviewed the utilization pattern of its property, plant and equipment. As a result of the review, the Company concluded that it is appropriate to adopt the straight-line method as the depreciation method for all property, plant and equipment considering the Company’s operations in both financial and settlement services in cooperation with NTT Group.

The effect of this change on operating income and profit before taxes for the fiscal year ended March 31, 2017 is insignificant.

- t. **Additional Information**

Application of Implementation Guidance on Recoverability of Deferred Tax Assets

The Company has adopted the revised “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, issued on March 28, 2016) from the fiscal year ended March 31, 2017.

3. SECURITIES, INVESTMENT SECURITIES AND INVESTMENTS IN VENTURE BUSINESSES

Acquisition cost and fair value of available-for-sale securities as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		
	2017		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	¥ 1,212	¥ 549	¥ 662
Debt securities	43,653	42,802	851
Others	7,000	6,849	151
Sub-total	51,866	50,200	1,665
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	45,152	45,442	(289)
Others	-	-	-
Sub-total	45,152	45,442	(289)
Total	¥ 97,018	¥ 95,643	¥ 1,375

	Thousands of U.S. Dollars		
	2017		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	\$ 10,804	\$ 4,898	\$ 5,906
Debt securities	389,103	381,516	7,587
Others	62,397	61,048	1,348
Sub-total	462,305	447,463	14,842
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	402,464	405,046	(2,582)
Others	-	-	-
Sub-total	402,464	405,046	(2,582)
Total	\$ 864,769	\$ 852,510	\$ 12,259

Unlisted equity securities of ¥2,591 million (\$23,101 thousand) and investments in partnerships of ¥697 million (\$6,219 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		
	2016		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	¥ 533	¥ 212	¥ 321
Debt securities	52,615	51,583	1,031
Others	11,459	11,146	312
Sub-total	64,608	62,943	1,665
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	21,468	21,621	(152)
Others	20,000	20,000	-
Sub-total	41,468	41,621	(152)
Total	¥ 106,077	¥ 104,565	¥ 1,512

Unlisted equity securities of ¥4,119 million and investments in partnerships of ¥799 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, 2017 and 2016 are as follows:

	Millions of Yen		
	2017		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	¥ 299	¥ 284	¥ -

	Thousands of U.S. Dollars		
	2017		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	\$ 2,665	\$ 2,532	\$ -

	Millions of Yen		
	2016		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	¥ 22	¥ 22	¥ -

If the fair value of a security as of a 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 a fiscal year-end declines 30% to 50% from its acquisition cost, the necessary amount based on the consideration of 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, 2017 were ¥1,136 million (\$10,129 thousand) and ¥7 million (\$66 thousand), respectively. Losses on impairment of available-for-sale securities and investments in affiliates for the year ended March 31, 2016 were ¥3,492 million and ¥2 million, respectively.

As of March 31, 2017, debt securities held by the Group to earn financial income for operating purpose are included in securities and investment securities in the amount of ¥1,905 million (\$16,980 thousand) and ¥93,901 million (\$836,984 thousand), respectively. As of March 31, 2016, debt securities held by the Group to earn financial income are included in securities and investment securities in the amount of ¥5,811 million and ¥79,732 million, respectively.

4. PROPERTY AND EQUIPMENT, NET

Accumulated depreciation of leased assets and assets held for own use as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Thousands of
	2017	2016	U.S. Dollars
			2017
Leased assets	¥ 8,161	¥ 6,618	\$ 72,750
Assets held for own use	4,015	4,234	35,788

5. INVESTMENTS IN NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in non-consolidated subsidiaries and affiliates as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Thousands of
	2017	2016	U.S. Dollars
			2017
Investment securities	¥ 3,573	¥ 3,691	\$ 31,850
Other under investments and other assets	1,977	2,008	17,629

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, 2017 and 2016 consisted of the following:

	Interest Rate (%) (Notes a, b, c and d)	Millions of Yen		Thousands of U.S. Dollars
		2017	2016	2017
Short-term debt:				
Short-term bank loans	0.911	¥ 144,435	¥ 43,283	\$ 1,287,420
Commercial papers	(0.001)	15,000	-	133,701
Short-term borrowings		159,435	43,283	1,421,122
Lease obligations, current portion	-	523	274	4,668
Payables associated with securitization of receivables	-	-	2,500	-
Deposits received from NTT Group companies, including current portion of long-term deposits received from NTT Group companies	0.021	895,573	821,326	7,982,653
Long-term debt:				
Long-term borrowings	0.773	526,336	508,342	4,691,472
Unsecured bonds	0.05 – 0.56	145,920	154,983	1,300,652
Bonds issued under Euro Medium Term Note Program	0.88 – 2.07	144,991	68,798	1,292,370
Sub-total		817,247	732,125	7,284,495
Less current portion	0.962	85,511	106,357	762,198
Long-term debt		731,736	686,891	6,522,297
Lease obligations, excluding current portion	-	1,269	430	11,311

- 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, 2017.
 - Interest rate for unsecured bonds represents the range of annual coupon rates 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 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 annual maturities of long-term borrowings, bonds payable, and lease obligations over 1 year through 5 years as of March 31, 2017 are summarized as follows:

	Millions of Yen			
	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
March 31, 2017				
Long-term borrowings	¥ 117,036	¥ 50,263	¥ 29,350	¥ 37,134
Bonds payable	62,437	39,992	5,609	98,349
Lease obligations	452	397	278	37

	Thousands of U.S. Dollars			
	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
March 31, 2017				
Long-term borrowings	\$1,043,194	\$ 448,022	\$ 261,617	\$ 330,999
Bonds payable	556,529	356,468	50,000	876,635
Lease obligations	4,037	3,544	2,480	335

7. RETIREMENT BENEFITS

(1) Overview of Retirement Benefit Plans

The Company has funded and unfunded defined benefit plans (mainly NTT corporate pension fund plan, contract-type corporate pension plan and lump-sum payment plan) and defined contribution plans. 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 corporate 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 and end of year

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Retirement benefit obligations at beginning of year	¥ 44,904	¥ 18,774	\$ 400,249
Current service costs	1,641	1,116	14,633
Interest costs	218	402	1,946
Actuarial gains and losses arising during year	(1,189)	5,395	(10,600)
Retirement benefits paid	(1,543)	(1,350)	(13,758)
Succession due to transfer	616	20,565	5,491
Retirement benefit obligations at end of year	¥ 44,647	¥ 44,904	\$ 397,961

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Plan assets at beginning of year	¥ 20,740	¥ 11,245	\$ 184,867
Expected return on plan assets	489	267	4,363
Actuarial gains and losses arising during year	114	498	1,021
Contribution from employer	335	255	2,991
Retirement benefits paid	(522)	(517)	(4,652)
Succession due to transfer	204	9,000	1,821
Other	(10)	(10)	96
Plan assets at end of year	¥ 21,351	¥ 20,740	\$ 190,316

(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
	2017	2016	2017
Retirement benefit obligations of funded plans	¥ 30,243	¥ 30,674	\$ 269,571
Plan assets	(21,351)	(20,740)	(190,316)
	8,891	9,934	79,254
Retirement benefit obligations of unfunded plans	14,404	14,229	128,390
Net balance of liability and asset recorded on the consolidated balance sheet	23,295	24,163	207,644
Defined benefit liability	23,497	24,367	209,444
Defined benefit asset	(201)	(203)	(1,799)
Net balance of liability and asset recorded on the consolidated balance sheet	¥ 23,295	¥ 24,163	\$ 207,644

(d) Profit and loss related to retirement benefits

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Current service costs	¥ 1,641	¥ 1,116	\$ 14,633
Interest costs	218	402	1,946
Expected return on plan assets	(489)	(267)	(4,363)
Amortization of actuarial gains and losses	445	(35)	3,973
Amortization of past service costs	(64)	(64)	(572)
Retirement benefit costs on defined benefit plans	¥ 1,752	¥ 1,150	\$ 15,617

(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
	2017	2016	2017
Past service costs	¥ (64)	¥ (64)	\$ (572)
Actuarial gains and losses	1,749	(4,932)	15,595
Total	¥ 1,685	¥ (4,997)	\$ 15,023

(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
	2017	2016	2017
Unrecognized past service costs	¥ 484	¥ 549	\$ 4,321
Unrecognized actuarial gains and losses	(2,593)	(4,343)	(23,121)
Total	¥ (2,109)	¥ (3,794)	\$ (18,800)

(g) Breakdown of plan assets

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

	2017	2016
Cash and cash equivalents	2.14%	1.33%
Debt securities	47.39	45.50
Equity securities	13.51	15.59
Beneficiary certificates of securities investment trust	15.64	16.46
Jointly managed money trust	7.45	7.18
General account of life insurance	13.79	13.83
Other	0.08	0.11
Total	100.00%	100.00%

(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

	2017	2016
Actuarial assumptions at end of year:		
Discount rate	0.1 - 0.7%	0.1 - 0.5%
Long-term expected rate of return:		
NTT corporate pension fund	2.5%	2.5%
Contract-type corporate pension	1.0%	2.0%

(3) *Defined Contribution Plans*

The required contributions to the defined contribution plans of the Group amounted to ¥238 million (\$2,123 thousand) and ¥220 million, for the years ended March 31, 2017 and 2016, respectively.

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 30.70% and 32.87% for the years ended March 31, 2017 and 2016, 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, 2017 and 2016 are as follows:

	Millions of Yen		Thousands of
	2017	2016	U.S. Dollars
Deferred tax assets:			
Current:			
Allowance for doubtful receivables	¥ 1	¥ 2,220	\$ 14
Accrued enterprise taxes	-	207	-
Accrued bonuses	605	586	5,396
Accounts payable - other	148	197	1,326
Loss on valuation of investments in venture businesses	287	320	2,564
Unearned profit on installment sales	231	223	2,061
Others	171	265	1,529
Sub-total	1,446	4,020	12,893
Valuation allowance	(274)	(306)	(2,448)
Total deferred tax assets - current	1,171	3,713	10,444
Noncurrent:			
Allowance for doubtful receivables	71	913	634
Accrued retirement benefits	7,093	7,424	63,227
Impairment loss	2	8	23
Loss on valuation of investment securities	28	1,097	256
Assets for re-leasing	1,564	-	13,943
Provision for loss on system use agreements	969	-	8,638
Others	1,122	2,631	10,009
Sub-total	10,852	12,075	96,734
Valuation allowance	(771)	(2,070)	(6,875)
Total deferred tax assets - noncurrent	10,081	10,005	89,859
Total deferred tax assets	11,253	13,719	100,304
Deferred tax liabilities:			
Current:			
Unrealized gain on available-for-sale securities	(113)	(58)	(1,007)
Enterprise tax receivables	(29)	-	(258)
Others	-	(14)	-
Total deferred tax liabilities - current	(142)	(72)	(1,266)
Noncurrent:			
Unrealized gain on available-for-sale securities	(335)	(442)	(2,987)
Effect of change in finance lease accounting	(418)	(386)	(3,727)
Others	(523)	(553)	(4,667)
Total deferred tax liabilities - noncurrent	(1,276)	(1,382)	(11,381)
Total deferred tax liabilities	(1,419)	(1,455)	(12,648)
Net deferred tax assets	¥ 9,834	¥ 12,264	\$ 87,656

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, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Statutory tax rate	30.70%	32.87%
Entertainment expenses permanently not deductible for income tax purposes	0.21	0.25
Tax on undistributed profits for a family corporation	1.13	0.64
Per capita inhabitant tax	0.82	0.97
Changes in valuation allowance	(9.43)	5.68
Equity in earnings of affiliates	(0.48)	(0.31)
Adjustment to deferred tax assets due to changes in tax rate	-	4.68
Tax credit for employment promotion	-	(2.83)
Others	(1.18)	0.37
Actual effective tax rate	<u>21.78%</u>	<u>42.32%</u>

10. LEASES

Lease transactions as lessor

Information relating to finance leases of the Group as lessor for the years ended March 31, 2017 and 2016 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Lease payments receivable	¥ 365,720	¥ 337,618	\$ 3,259,835
Estimated residual value	4,950	4,737	44,125
Unearned interest income	(39,505)	(37,150)	(352,127)
Investments in leases	<u>¥ 331,166</u>	<u>¥ 305,205</u>	<u>\$ 2,951,833</u>

The aggregate annual maturities of lease receivables and investments in leases as of March 31, 2017 and 2016 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
March 31, 2017						
Lease receivables	¥ 40,076	¥ 33,682	¥27,913	¥19,152	¥ 12,072	¥ 24,792
Investments in leases	100,430	88,007	64,964	46,454	32,758	33,105
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
March 31, 2017						
Lease receivables	\$ 357,217	\$ 300,229	\$ 248,806	\$ 170,714	\$ 107,605	\$ 220,988
Investments in leases	895,179	784,450	579,061	414,069	291,988	295,086
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
March 31, 2016						
Lease receivables	¥ 34,902	¥ 30,866	¥ 24,228	¥ 18,682	¥ 10,106	¥ 20,440
Investments in leases	93,930	79,137	67,459	43,702	25,920	27,468

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Due in 1 year or less	¥ 3,137	¥ 2,779	\$ 27,967
Due after 1 year	15,830	17,541	141,101
Total	¥ 18,967	¥ 20,320	\$ 169,069

Lease transactions as lessee

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Due in 1 year or less	¥ 896	¥ 605	\$ 7,994
Due after 1 year	2,543	1,888	22,671
Total	¥ 3,440	¥ 2,493	\$ 30,666

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, lease receivables 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, lease receivables 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, 2017 and 2016 is estimated to decrease market value of the Group's net financial assets by ¥153 million (\$1,376 thousand) and ¥139 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, 2017 and 2016 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, 2017	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 376,635	¥ 376,635	¥ -
Installment sales receivable	81,465		
Less: allowance for doubtful receivables (Note a)	(262)		
	<u>81,202</u>	<u>82,320</u>	<u>1,117</u>
Lease receivables and investments in leases	481,160		
Less: allowance for doubtful receivables (Note a)	(1,453)		
	<u>479,707</u>	<u>481,388</u>	<u>1,681</u>
Loans receivable	1,321,243		
Less: allowance for doubtful receivables (Note a)	(183)		
	<u>1,321,060</u>	<u>1,321,024</u>	<u>(36)</u>
Other loans receivable	44,792		
Less: allowance for doubtful receivables (Note a)	(1)		
	<u>44,791</u>	<u>44,847</u>	<u>56</u>
Rents receivable	22,160		
Less: allowance for doubtful receivables (Note a)	(70)		
	<u>22,090</u>	<u>22,217</u>	<u>127</u>
Credit card receivables	49,029		
Less: allowance for doubtful receivables (Note a)	(1,169)		
	<u>47,859</u>	<u>47,859</u>	<u>-</u>
Billing receivables	113,626		
Less: allowance for doubtful receivables (Note a)	(16,597)		
	<u>97,028</u>	<u>97,028</u>	<u>-</u>
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	97,018	97,018	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	3,600		
Less: allowance for doubtful receivables (Note a)	(3,245)		
	<u>354</u>	<u>354</u>	<u>-</u>
Total assets	<u>¥ 2,567,748</u>	<u>¥ 2,570,694</u>	<u>¥ 2,945</u>

March 31, 2017	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Trade notes and accounts payable	¥ 20,184	¥ 20,184	¥ -
Short-term bank loans	144,435	144,435	-
Commercial papers	15,000	15,000	-
Lease obligations	1,792	1,683	(109)
Accounts payable - other	437,274	437,276	2
Deposits received	141,220	141,220	-
Deposits received from shareholders, directors or employees	910,810	910,810	-
Bonds payable	290,911	310,546	19,635
Long-term borrowings	526,336	525,441	(895)
Total liabilities	<u>¥ 2,487,966</u>	<u>¥ 2,506,599</u>	<u>¥ 18,633</u>
Derivative transactions (Note b):			
Not qualifying for hedge accounting	¥ (60)	¥ (60)	¥ -
Qualifying for hedge accounting	19,382	19,382	-
Total derivative transactions	<u>¥ 19,322</u>	<u>¥ 19,322</u>	<u>¥ -</u>

March 31, 2017	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	\$ 3,357,118	\$ 3,357,118	\$ -
Installment sales receivable	726,134		
Less: allowance for doubtful receivables (Note a)	(2,336)		
	<u>723,798</u>	<u>733,762</u>	<u>9,964</u>
Lease receivables and investments in leases	4,288,802		
Less: allowance for doubtful receivables (Note a)	(12,958)		
	<u>4,275,844</u>	<u>4,290,828</u>	<u>14,983</u>
Loans receivable	11,776,842		
Less: allowance for doubtful receivables (Note a)	(1,633)		
	<u>11,775,209</u>	<u>11,774,885</u>	<u>(323)</u>
Other loans receivable	399,260		
Less: allowance for doubtful receivables (Note a)	(11)		
	<u>399,248</u>	<u>399,749</u>	<u>501</u>
Rents receivable	197,525		
Less: allowance for doubtful receivables (Note a)	(624)		
	<u>196,901</u>	<u>198,034</u>	<u>1,132</u>
Credit card receivables	437,019		
Less: allowance for doubtful receivables (Note a)	(10,427)		
	<u>426,592</u>	<u>426,592</u>	<u>-</u>
Billing receivables	1,012,800		
Less: allowance for doubtful receivables (Note a)	(147,942)		
	<u>864,858</u>	<u>864,858</u>	<u>-</u>
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	864,769	864,769	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	32,091		
Less: allowance for doubtful receivables (Note a)	(28,930)		
	<u>3,160</u>	<u>3,160</u>	<u>-</u>
Total assets	<u>\$ 22,887,502</u>	<u>\$ 22,913,760</u>	<u>\$ 26,258</u>

March 31, 2017	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Difference
Trade notes and accounts payable	\$ 179,916	\$ 179,916	\$ -
Short-term bank loans	1,287,420	1,287,420	-
Commercial papers	133,701	133,701	-
Lease obligations	15,980	15,004	(976)
Accounts payable - other	3,897,620	3,897,643	22
Deposits received	1,258,761	1,258,761	-
Deposits received from shareholders, directors or employees	8,118,466	8,118,466	-
Bonds payable	2,593,023	2,768,044	175,021
Long-term borrowings	4,691,472	4,683,492	(7,980)
Total liabilities	<u>\$ 22,176,365</u>	<u>\$ 22,342,453</u>	<u>\$ 166,087</u>
Derivative transactions (Note b)			
Not qualifying for hedge accounting	\$ (536)	\$ (536)	\$ -
Qualifying for hedge accounting	172,768	172,768	-
Total derivative transactions	<u>\$ 172,231</u>	<u>\$ 172,231</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.

March 31, 2016	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 530,173	¥ 530,173	¥ -
Installment sales receivable	70,417		
Less: allowance for doubtful receivables (Note a)	(263)		
	<u>70,154</u>	<u>72,566</u>	<u>2,411</u>
Lease receivables and investments in leases	436,992		
Less: allowance for doubtful receivables (Note a)	(1,563)		
	<u>435,428</u>	<u>439,196</u>	<u>3,767</u>
Loans receivable	900,854		
Less: allowance for doubtful receivables (Note a)	(87)		
	<u>900,767</u>	<u>911,246</u>	<u>10,479</u>
Other loans receivable	55,561		
Less: allowance for doubtful receivables (Note a)	(0)		
	<u>55,560</u>	<u>55,671</u>	<u>111</u>
Rents receivable	20,875		
Less: allowance for doubtful receivables (Note a)	(76)		
	<u>20,799</u>	<u>20,946</u>	<u>146</u>
Credit card receivables	48,942		
Less: allowance for doubtful receivables (Note a)	(1,108)		
	<u>47,833</u>	<u>47,833</u>	<u>-</u>
Billing receivables	128,425		
Less: allowance for doubtful receivables (Note a)	(20,683)		
	<u>107,742</u>	<u>107,742</u>	<u>-</u>
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	106,077	106,077	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	3,233		
Less: allowance for doubtful receivables (Note a)	(3,200)		
	<u>32</u>	<u>32</u>	<u>-</u>
Total assets	<u>¥ 2,274,568</u>	<u>¥ 2,291,485</u>	<u>¥ 16,917</u>

March 31, 2016	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Trade notes and accounts payable	¥ 20,702	¥ 20,702	¥ -
Short-term bank loans	43,283	43,283	-
Lease obligations	704	669	(35)
Accounts payable - other	434,456	434,462	5
Deposits received	145,780	145,780	-
Deposits received from shareholders, directors or employees	817,546	817,546	-
Bonds payable	223,782	241,096	17,314
Long-term borrowings	508,342	510,733	2,391
Total liabilities	¥ 2,194,599	¥ 2,214,275	¥ 19,675
Derivative transactions (Note b):			
Not qualifying for hedge accounting	¥ (59)	¥ (59)	¥ -
Qualifying for hedge accounting	10,496	10,496	-
Total derivative transactions	¥ 10,437	¥ 10,437	¥ -

- 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.

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 Lease receivables 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 lease receivables 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, 2017 and 2016 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
		2017	2016	2017
Investments in affiliates	Unlisted equity securities	¥ 3,573	¥ 3,691	\$ 31,850
Available-for-sale securities	Unlisted equity securities	2,591	4,119	23,101
	Investments in partnerships	697	799	6,219
	Total available-for-sale securities	¥ 3,289	¥ 4,918	\$ 29,321

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

March 31, 2017	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	¥ 376,635	¥ -	¥ -	¥ -	¥ -	¥ -
Installment sales receivable (Note a)	22,325	17,121	13,170	8,186	4,809	18,613
Lease receivables and investments in leases (Notes a and b)	140,506	121,690	92,878	65,606	44,830	57,898
Loans receivable (Note a)	537,775	110,941	151,942	85,529	148,777	286,277
Other receivables (Note a)	25,384	3,128	5,806	2,888	2,541	5,042
Rents receivable (Note a)	3,128	597	1,404	3,112	4,646	9,271
Credit card receivables (Note a)	49,029	-	-	-	-	-
Billing receivables (Note a)	113,626	-	-	-	-	-
Investments in venture businesses, securities and investment securities: Available-for-sale securities with contractual maturities (Note a)	1,905	12,654	15,640	2,843	4,014	32,559

March 31, 2017	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	\$ 3,357,118	\$ -	\$ -	\$ -	\$ -	\$ -
Installment sales receivable (Note a)	199,000	152,614	117,391	72,968	42,870	165,914
Lease receivables and investments in leases (Notes a and b)	1,252,396	1,084,680	827,867	584,783	399,593	516,075
Loans receivable (Note a)	4,793,431	988,868	1,354,333	762,361	1,326,125	2,551,723
Other receivables (Note a)	226,266	27,886	51,757	25,749	22,650	44,950
Rents receivable (Note a)	27,888	5,326	12,516	27,739	41,414	82,639
Credit card receivables (Note a)	437,019	-	-	-	-	-
Billing receivables (Note a)	1,012,800	-	-	-	-	-
Investments in venture businesses, securities and investment securities: Available-for-sale securities with contractual maturities (Note a)	16,980	112,791	139,410	25,342	35,784	290,220

- 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 lease receivables and investments in leases.

March 31, 2016	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	¥ 530,173	¥ -	¥ -	¥ -	¥ -	¥ -
Installment sales receivable (Note a)	18,303	15,599	11,727	8,376	4,290	14,472
Lease receivables and investments in leases (Notes a and b)	128,832	110,004	91,687	62,385	36,027	47,909
Loans receivable (Note a)	298,687	84,230	100,571	136,415	71,675	209,274
Other receivables (Note a)	29,804	6,511	4,801	6,007	1,513	6,923
Rents receivable (Note a)	3,199	653	1,259	2,429	4,186	9,147
Credit card receivables (Note a)	48,942	-	-	-	-	-
Billing receivables (Note a)	128,425	-	-	-	-	-
Investments in venture businesses, securities and investment securities: Available-for-sale securities with contractual maturities (Note a)	25,811	2,733	9,792	10,910	2,148	28,533

- 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 lease receivables 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, 2017 and 2016 (excluding hedging transactions) are as follows. Fair value is quoted based on the price information from the counterparty financial institution.

March 31, 2017	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)	¥ 4
Foreign exchange forward contracts selling position, U.S. Dollars	483	483	(56)	(4)
Total	¥ 1,225	¥ 1,225	¥ (60)	¥ (0)

	Thousands of U.S. Dollars			
	Contract Amount		Fair Value	Unrealized Gain/(Loss)
	Total	Due after 1 Year		
<u>March 31, 2017</u>				
Interest rate swaps (Pay fixed rate, receive variable rate)	\$ 6,608	\$ 6,608	\$ (29)	\$ 36
Foreign exchange forward contracts selling position, U.S. Dollars	4,312	4,312	(507)	(42)
Total	<u>\$ 10,921</u>	<u>\$ 10,921</u>	<u>\$ (536)</u>	<u>\$ (5)</u>

	Millions of Yen			
	Contract Amount		Fair Value	Unrealized Gain/(Loss)
	Total	Due after 1 Year		
<u>March 31, 2016</u>				
Interest rate swaps (Pay fixed rate, receive variable rate)	¥ 741	¥ 741	¥ (7)	¥ (3)
Foreign exchange forward contracts selling position, U.S. Dollars	483	483	(52)	29
Total	<u>¥ 1,225</u>	<u>¥ 1,225</u>	<u>¥ (59)</u>	<u>¥ 26</u>

Derivative instruments which qualify as hedging instruments as of March 31, 2017 and 2016 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, 2017</u>				
Interest rate swaps (Note a)	Long-term borrowings	¥ 114,218	¥ 91,030	¥ (1,400)
(Pay fixed rate, receive variable rate)	Bonds payable	5,609	5,609	(56)
(Pay variable rate, receive fixed rate)	Long-term borrowings	63,130	28,858	(4,557)
Currency swaps (Note b)	Bonds payable	165,415	125,885	25,396
(Pay fixed rate, receive variable rate)				
(Pay fixed rate, receive fixed rate)				
Total		<u>¥ 348,373</u>	<u>¥ 251,383</u>	<u>¥ 19,382</u>

	Hedged Item	Thousands of U.S. Dollars		
		Contract Amount		Fair Value
		Total	Due after 1 Year	
<u>March 31, 2017</u>				
Interest rate swaps (Note a)	Long-term borrowings	\$1,018,078	\$ 811,394	\$(12,483)
(Pay fixed rate, receive variable rate)	Bonds payable	50,000	50,000	(499)
(Pay variable rate, receive fixed rate)	Long-term borrowings	562,713	257,231	(40,620)
Currency swaps (Note b)	Bonds payable	1,474,418	1,122,069	226,372
(Pay fixed rate, receive variable rate)				
(Pay fixed rate, receive fixed rate)				
Total		<u>\$3,105,210</u>	<u>\$ 2,240,695</u>	<u>\$172,768</u>

		Millions of Yen		
<u>March 31, 2016</u>				
Interest rate swaps (Note a) (Pay fixed rate, receive variable rate) (Pay variable rate, receive fixed rate)	Long-term borrowings	¥ 123,993	¥ 117,466	¥ (3,451)
	Bonds payable	5,634	5,634	106
Currency swaps (Note b) (Pay fixed rate, receive variable rate) (Pay fixed rate, receive fixed rate)	Long-term borrowings	47,417	47,417	(4,392)
	Bonds payable	68,388	68,388	18,233
Total		<u>¥ 245,433</u>	<u>¥ 238,906</u>	<u>¥ 10,496</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, 2017 and 2016 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Assets pledged as collateral:			
Lease receivables and investments in leases	¥ -	¥ 1,729	\$ -
Rents receivable	-	619	-
Leased assets	17,680	18,740	157,593
Total	<u>¥ 17,680</u>	<u>¥ 21,089</u>	<u>\$ 157,593</u>
Corresponding debt:			
Current portion of long-term borrowings	¥ 1,127	¥ 1,113	\$ 10,047
Other under current liabilities (Payables associated with securitization of receivables)	-	2,500	-
Long-term borrowings	12,306	13,442	109,697
Other under long-term liabilities (Long-term deposits received)	-	1	-
Total	<u>¥ 13,434</u>	<u>¥ 17,057</u>	<u>\$ 119,745</u>

As of March 31, 2017, the Group had ¥63 million (\$568 thousand) and ¥3,058 million (\$27,259 thousand) of notes receivable which was obtained for lease and installment sales, respectively.

14. COMMITMENTS AND CONTINGENCIES

As of March 31, 2017 and 2016, the Group had the following contingent liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Guarantees in the ordinary course of business	¥ 13,628	¥ 9,597	\$ 121,472
Unexecuted loan commitments (Note)	1,211,176	993,591	10,795,759

Note: The Group enters into loan commitment agreements with customers. As of March 31, 2017 and 2016, loan commitments given to customers were ¥1,662,599 million (\$14,819,499 thousand) and ¥1,208,814 million, of which ¥451,423 million (\$4,023,740 thousand) and ¥215,222 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, 2017 and 2016 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized loss on available-for-sale securities:			
Gains/(losses) arising during the year	¥ (177)	¥ (236)	\$ (1,586)
Reclassification adjustments	6	(2)	55
Amount before income tax effect	(171)	(239)	(1,530)
Income tax effect	52	105	470
Unrealized loss on available-for-sale securities	(119)	(133)	(1,060)
Foreign currency translation adjustments:			
Gains/(losses) arising during the year	(26)	(364)	(237)
Foreign currency translation adjustments	(26)	(364)	(237)
Remeasurements of defined benefit plans:			
Gains/(losses) arising during the year	1,303	(4,897)	11,621
Reclassification adjustments	381	(99)	3,401
Amount before income tax effect	1,685	(4,997)	15,023
Income tax effect	(514)	1,542	(4,581)
Remeasurements of defined benefit plans	1,171	(3,454)	10,441
Share of other comprehensive income of affiliates accounted for using equity method:			
Gains/(losses) arising during the year	(172)	(105)	(1,533)
Total other comprehensive income/(loss)	¥ 853	¥(4,058)	\$ 7,609

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, 2017 and 2016. Assets are not allocated to reportable segments.

	Millions of Yen					
	2017					
	Reportable Segment					Total
Lease	Loan	Investment	Credit Card	Billing		
Revenue from external customers	¥ 190,220	¥ 10,513	¥ 3,307	¥ 5,375	¥ 182,475	¥ 391,892
Intersegment revenue or transfers	-	-	-	32,870	252	33,123
Total	¥ 190,220	¥ 10,513	¥ 3,307	¥ 38,246	¥ 182,728	¥ 425,015
Segment profit	¥ 10,675	¥ 4,397	¥ 1,995	¥ 2,816	¥ 5,032	¥ 24,916

Thousands of U.S. Dollars						
2017						
Reportable Segment						
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	\$ 1,695,518	\$ 93,708	\$ 29,479	\$ 47,914	\$ 1,626,489	\$ 3,493,110
Intersegment revenue or transfers	-	-	-	292,989	2,254	295,243
Total	\$ 1,695,518	\$ 93,708	\$ 29,479	\$ 340,903	\$ 1,628,744	\$ 3,788,354
Segment profit	\$ 95,153	\$ 39,196	\$ 17,784	\$ 25,101	\$ 44,858	\$ 222,093

Millions of Yen						
2016						
Reportable Segment						
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	¥ 176,014	¥ 9,280	¥ 2,525	¥ 5,200	¥ 190,438	¥ 383,460
Intersegment revenue or transfers	-	-	-	31,301	264	31,565
Total	¥ 176,014	¥ 9,280	¥ 2,525	¥ 36,502	¥ 190,702	¥ 415,025
Segment profit	¥ 12,643	¥ 3,497	¥ 1,191	¥ 2,510	¥ 5,442	¥ 25,284

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
	2017	2016	2017
Revenue:			
Reportable segments total	¥ 425,015	¥ 415,025	\$ 3,788,354
Intersegment eliminations	(33,123)	(31,565)	(295,243)
Revenue in the consolidated statements of income	<u>¥ 391,892</u>	<u>¥ 383,460</u>	<u>\$ 3,493,110</u>
Segment profit:			
Reportable segments total	¥ 24,916	¥ 25,284	\$ 222,093
Corporate expenses (Note)	(9,044)	(8,765)	(80,620)
Operating income in the consolidated statements of income	<u>¥ 15,871</u>	<u>¥ 16,519</u>	<u>\$ 141,472</u>

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, 2017 and 2016 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, 2017 and 2016 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Property and equipment:			
Japan	¥ 25,313	¥ 26,606	\$ 225,632
Asia	9,602	10,318	85,589
Total	¥ 34,916	¥ 36,925	\$ 311,222

Information about revenue by major customer for the year ended March 31, 2017 is as follows:

	Revenue		Related Segments
	Millions of Yen	Thousands of U.S. Dollars	
NTT DOCOMO, INC.	¥ 86,815	\$ 773,821	Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION	43,392	386,774	Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	40,711	362,881	Lease and Billing

Information about revenue by major customer for the year ended March 31, 2016 is as follows:

	Revenue		Related Segments
	Millions of Yen		
NTT DOCOMO, INC.	¥ 85,457		Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION	47,077		Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	45,233		Lease and Billing

Change in depreciation method for property, plant and equipment

As described in “Change in Accounting Policy,” previously, the Company had principally adopted the declining-balance method as the depreciation method for property, plant and equipment except for buildings. However, the Company has adopted the straight-line method of depreciation from the first quarter of the year ending March 31, 2017.

The background of this change was that NIPPON TELEGRAPH AND TELEPHONE CORPORATION (“NTT”), the parent company of the Company, and its subsidiaries in Japan switched the depreciation method for property, plant and equipment from the declining-balance method to the straight-line method from the first quarter of the year ending March 31, 2017.

Therefore, the Company reviewed the utilization pattern of its property, plant and equipment. As a result of the review, the Company concluded that it is appropriate to adopt the straight-line method as the depreciation method for all property, plant and equipment considering the Company’s operations in both financial and settlement services in cooperation with NTT Group.

This change has had an immaterial impact on segment profit for the fiscal year ended March 31, 2017.

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 NTT, which had a 92.17% (direct) and 7.83% (indirect) ownership share in the Company in 2017 and 2016, as of and for the years ended March 31, 2017 and 2016 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Transactions:			
Acceptance of excess funds	¥ 78,416	¥ 17,154	\$ 698,965
Execution of loans	95,667	271,950	852,728
Account balances:			
Loans receivable	186,002	50,000	1,657,921
Deposits received from shareholders, directors or employees	-	177,796	-

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 11 and 10 other NTT Group companies as of and for the years ended March 31, 2017 and 2016, respectively, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Transactions:			
Acceptance of excess funds	¥ 628,646	¥ 581,296	\$ 5,603,405
Execution of loans	570,952	469,932	5,089,152
Transactions related to transferred receivables	5,985,166	5,989,709	53,348,486
Billing-related revenue	175,282	181,930	1,562,367
Account balances:			
Billing receivables	18,240	19,105	162,582
Accounts payable - other	398,845	400,769	3,555,090
Deposits received	67,527	70,562	601,900
Deposits received from shareholders, directors or employees	905,840	631,739	8,074,164
Loans receivable	719,864	492,071	6,416,478

18. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2017 was approved at the Company's shareholders meeting held on June 16, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥215,943.00 (\$1,924.79) per share	¥ 11,091	\$ 98,867

* * * * *

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, 2017 and 2016, 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.

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 misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of NTT FINANCE CORPORATION and its consolidated subsidiaries as at March 31, 2017 and 2016, 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, 2017 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.