

Consolidated Financial Statements

NTT FINANCE CORPORATION and Consolidated Subsidiaries

For the Years ended March 31,
2018 and 2017
Together with Independent Auditor's Report

NTT FINANCE CORPORATION and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2018 and 2017

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)
	2018	2017	2018		2018	2017	2018
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents (Note 11)	¥ 148,805	¥ 376,635	\$ 1,400,654	Short-term bank loans (Notes 6 and 11)	¥ 126,124	¥ 144,435	\$ 1,187,162
Lease receivables and investments in leases (Notes 10, 11, and 13)	529,612	481,356	4,985,054	Current portion of long-term borrowings (Notes 6, 11 and 13)	116,656	30,988	1,098,042
Trade accounts receivable (Note 11):				Current portion of bonds (Notes 6 and 11)	61,247	54,522	576,504
Installment sales (Note 13)	98,026	84,227	922,685	Commercial papers (Notes 6 and 11)	39,000	15,000	367,094
Loans (Note 17)	1,474,956	1,321,243	13,883,252	Lease obligations (Notes 6, 10 and 11)	1,325	1,774	12,474
Other loans	60,096	44,792	565,662	Trade notes and accounts payable (Note 11)	24,334	20,184	229,052
Rents	23,777	22,160	223,811	Accounts payable - other (Notes 11 and 17)	432,638	437,274	4,072,279
Credit cards	53,066	49,029	499,496	Accrued income taxes	6,458	239	60,796
Billing (Note 17)	296,609	113,626	2,791,878	Unearned profit on installment sales	3,427	2,762	32,260
Allowance for doubtful receivables	(16,627)	(19,738)	(156,508)	Deposits received (Notes 11 and 17)	112,992	141,220	1,063,561
Investments in venture businesses (Notes 3 and 11)	1,758	2,230	16,548	Deposits received from shareholders, directors or employees (Notes 11 and 17)	828,811	910,810	7,801,311
Securities (Notes 3 and 11)	11,532	1,905	108,547	Asset retirement obligations	56	-	531
Deferred tax assets (Note 9)	1,587	1,029	14,945	Other	15,927	14,743	149,920
Other	31,419	36,725	295,744				
Total current assets	2,714,620	2,515,224	25,551,772	Total current liabilities	1,769,001	1,773,956	16,650,991
PROPERTY AND EQUIPMENT, NET (Note 4):				LONG-TERM LIABILITIES:			
Leased assets (Note 13)	27,500	30,710	258,849	Bonds	269,836	236,388	2,539,878
Assets held for own use	4,510	4,205	42,454	Long-term borrowings (Notes 6, 11 and 13)	672,843	495,348	6,333,237
Total property and equipment, net	32,010	34,916	301,304	Lease obligations (Notes 6 and 11)	10	18	99
INTANGIBLE ASSETS—Assets held for own use	2,753	2,169	25,920	Accrued directors' retirement benefits	-	45	-
INVESTMENTS AND OTHER ASSETS:				Provision for loss on system use agreements	2,287	3,180	21,526
Investment securities (Notes 3, 5 and 11)	110,107	99,745	1,036,406	Defined benefit liability (Note 7)	23,220	23,497	218,564
Defined benefit asset (Note 7)	639	201	6,015	Deferred tax liabilities (Note 9)	154	108	1,455
Deferred tax assets (Note 9)	9,117	8,912	85,821	Asset retirement obligations	2,005	2,116	18,876
Other (Notes 5 and 11)	12,261	12,171	115,411	Other	13,480	12,398	126,888
Allowance for doubtful receivables (Note 11)	(3,451)	(3,252)	(32,490)				
Total investments and other assets	128,674	117,779	1,211,164	Total long-term liabilities	983,838	773,101	9,260,527
				Total liabilities	2,752,839	2,547,058	25,911,518
				NET ASSETS:			
				Shareholders' equity (Notes 8 and 18):			
				Common stock—authorized, 80,000 shares; issued, 51,960 shares in 2018 and 2017	16,770	16,770	157,859
				Capital surplus	15,950	15,950	150,136
				Retained earnings	92,992	91,270	875,302
				Treasury stock; 595 shares in 2018 and 2017	(1,126)	(1,126)	(10,608)
				Total shareholders' equity	124,586	122,865	1,172,690
				Accumulated other comprehensive income/(loss):			
				Unrealized gain/(loss) on available-for-sale securities	966	1,022	9,094
				Foreign currency translation adjustments	10	300	99
				Remeasurements of defined benefit plans	(717)	(1,466)	(6,757)
				Total accumulated other comprehensive income/(loss)	258	(143)	2,436
				Non-controlling interests	373	308	3,515
				Total net assets	125,218	123,030	1,178,642
TOTAL ASSETS	¥ 2,878,058	¥ 2,670,089	\$ 27,090,160	TOTAL LIABILITIES AND NET ASSETS	¥ 2,878,058	¥ 2,670,089	\$ 27,090,160

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Consolidated Statements of Income
Years Ended March 31, 2018 and 2017**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
REVENUE (Note 16):	¥ 404,476	¥ 391,892	\$ 3,807,194
COST OF SALES	265,359	248,714	2,497,736
Gross profit/(loss)	139,116	143,177	1,309,457
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	120,335	127,306	1,132,678
Operating income/(loss) (Note 16)	18,781	15,871	176,779
OTHER INCOME:			
Interest income	0	0	4
Dividend income	39	29	368
Equity in earnings of affiliates	171	218	1,618
Gain on bad debts recovered	516	431	4,861
Other	60	50	566
Total other income	788	729	7,418
OTHER EXPENSES:			
Interest expense	94	157	885
Bond issuance costs	226	350	2,127
Foreign exchange loss	462	11	4,353
Loss on retirement of assets held for own use	176	153	1,661
Other	10	41	102
Total other expenses	970	713	9,130
EXTRAORDINARY LOSSES:			
Loss on valuation of investment securities	-	1,136	-
Head office transfer cost	-	709	-
Total extraordinary losses	-	1,845	-
PROFIT/(LOSS) BEFORE TAXES	18,599	14,042	175,067
INCOME TAXES (Note 9):			
Current	6,709	1,089	63,153
Deferred	(988)	1,969	(9,300)
Total income taxes	¥ 5,721	¥ 3,059	\$ 53,852

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Consolidated Statements of Income
Years Ended March 31, 2018 and 2017**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
PROFIT/(LOSS)	¥ 12,877	¥ 10,983	\$ 121,214
PROFIT/(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	64	(108)	608
PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF PARENT	¥ 12,813	¥ 11,091	\$ 120,606
	Yen		U.S. Dollars (Note 1)
	2018	2017	2018
PER SHARE OF COMMON STOCK:			
Weighted average number of shares outstanding	51,365	51,365	
Basic earnings per share	¥ 249,454.55	¥ 215,943.79	\$ 2,348.02
Cash dividends applicable to the year (Note 18)	249,454.00	215,943.00	2,348.02

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Consolidated Statements of Comprehensive Income
Years Ended March 31, 2018 and 2017**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
PROFIT/(LOSS)	¥ 12,877	¥ 10,983	\$ 121,214
OTHER COMPREHENSIVE INCOME/(LOSS) (Note 15):			
Unrealized gain/(loss) on available-for-sale securities	(56)	(119)	(533)
Foreign currency translation adjustments	(351)	(26)	(3,306)
Remeasurements of defined benefit plans	748	1,171	7,044
Share of other comprehensive income (loss) of affiliates accounted for using equity method	61	(172)	579
Total other comprehensive income/(loss)	402	853	3,784
COMPREHENSIVE INCOME/(LOSS)	¥ 13,279	¥ 11,836	\$ 124,998
Comprehensive income/(loss) attributable to:			
Owners of parent	¥ 13,215	¥ 11,945	\$ 124,390
Non-controlling interests	64	(108)	608

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2018 and 2017

	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, 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
Cash dividends, ¥215,943.00 per share				(11,091)		(11,091)						(11,091)
Profit attributable to owners of parent				12,813		12,813						12,813
Net changes of items other than shareholders' equity							(56)	(289)	748	402	64	466
BALANCE, MARCH 31, 2018	51,365	¥ 16,770	¥ 15,950	¥ 92,992	¥ (1,126)	¥ 124,586	¥ 966	¥ 10	¥ (717)	¥ 258	¥ 373	¥ 125,218

	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, 2017	\$ 157,859	\$ 150,136	\$ 859,100	\$ (10,608)	\$ 1,156,488	\$ 9,628	\$ 2,826	\$ (13,802)	\$ (1,348)	\$ 2,907	\$ 1,158,047	
Cash dividends, \$2,032.59 per share			(104,404)		(104,404)							(104,404)
Profit attributable to owners of parent			120,606		120,606							120,606
Net changes of items other than shareholders' equity						(533)	(2,726)	7,044	3,784	608	4,392	
BALANCE, MARCH 31, 2018	\$ 157,859	\$ 150,136	\$ 875,302	\$ (10,608)	\$ 1,172,690	\$ 9,094	\$ 99	\$ (6,757)	\$ 2,436	\$ 3,515	\$ 1,178,642	

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
OPERATING ACTIVITIES:			
Profit before taxes	¥ 18,599	¥ 14,042	\$ 175,067
Adjustments to reconcile profit before taxes to net cash provided by operating activities:			
Depreciation of leased assets and assets held for own use	3,789	5,195	35,669
(Gain)/loss on retirement of leased assets and assets held for own use	993	453	9,349
(Increase)/decrease in defined benefit asset	(91)	(82)	(857)
Increase/(decrease) in defined benefit liability	452	899	4,261
Increase/(decrease) in accrued directors' retirement benefits	(45)	(1)	(426)
Increase/(decrease) in allowance for doubtful receivables	(2,914)	(4,162)	(27,437)
Increase/(decrease) in provision for loss on system use agreements	(893)	3,180	(8,405)
Interest and dividend income	(39)	(29)	(372)
Financing costs and interest expense	11,067	6,334	104,169
Foreign exchange (gain)/loss	(10,735)	(834)	(101,053)
Equity in (earnings)/losses of affiliates	(171)	(218)	(1,618)
(Gain)/loss on valuation of investment securities	-	1,143	-
(Gain)/loss on sales of investment securities	0	(5)	0
Bond issuance costs	226	350	2,127
(Increase)/decrease in trade accounts receivable - installment sales	(13,798)	(11,457)	(129,879)
(Increase)/decrease in lease receivables and investments in leases	(48,315)	(44,166)	(454,777)
(Increase)/decrease in trade accounts receivable - loans	(158,534)	(420,732)	(1,492,225)
(Increase)/decrease in trade accounts receivable - other loans	(15,544)	10,744	(146,317)
(Increase)/decrease in trade accounts receivable - rents	(1,617)	(1,284)	(15,222)
(Increase)/decrease in trade accounts receivable - credit cards	(4,037)	(87)	(38,000)
(Increase)/decrease in trade accounts receivable - billing	(182,983)	14,799	(1,722,355)
(Increase)/decrease in investments in venture businesses	117	16	1,104
(Increase)/decrease in other securities to earn financial income for operating purpose	(19,814)	(10,641)	(186,505)
Purchases of leased assets	(407)	(2,122)	(3,835)
Increase/(decrease) in trade notes and accounts payable	4,149	(517)	39,058
Increase/(decrease) in accounts payable - other	(4,635)	2,817	(43,628)
Increase/(decrease) in deposits received - billing	(58,998)	14,311	(555,331)
Other—net	11,880	6,775	111,831
Subtotal	(472,301)	(415,279)	(4,445,612)
Interest and dividend income received	247	217	2,329
Interest expense paid	(10,150)	(5,614)	(95,545)
Income taxes refund/(paid)	722	(4,323)	6,804
Net cash provided by/(used in) operating activities	¥ (481,482)	¥ (424,999)	\$ (4,532,023)

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Consolidated Statements of Cash Flows
Years Ended March 31, 2018 and 2017**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Net cash provided by/(used in) operating activities	¥ (481,482)	¥ (424,999)	\$ (4,532,023)
INVESTING ACTIVITIES:			
Payments into time deposits	(20,000)	-	(188,253)
Proceeds from withdrawal of time deposits	20,000	-	188,253
Proceeds from sales and redemption of investment securities	0	8	0
Proceeds from liquidating dividends of investment securities	0	-	7
Payments for purchases of investments in affiliates	(67)	-	(637)
Payments for purchases of assets held for own use	(2,495)	(1,922)	(23,492)
Proceeds from redemption of investments in capital	-	3,187	-
Other—net	(204)	(276)	(1,927)
Net cash provided by/(used in) investing activities	(2,767)	997	(26,048)
FINANCING ACTIVITIES:			
Increase/(decrease) in short-term bank loans	(13,857)	96,374	(130,435)
Increase/(decrease) in commercial papers	24,000	15,000	225,904
Increase in long-term borrowings	305,262	72,534	2,873,330
Repayments of long-term borrowings	(36,696)	(49,098)	(345,415)
Increase/(decrease) in payables associated with securitization of receivables	-	(2,500)	-
Proceeds from issuance of bonds	95,706	127,979	900,853
Redemption of bonds	(54,530)	(61,046)	(513,271)
Cash dividends paid	(11,091)	(3,113)	(104,404)
Increase/(decrease) in deposits received	(52,319)	74,647	(492,467)
Repayments of long-term deposits received	-	(400)	-
Other—net	(10)	(10)	(102)
Net cash provided by/(used in) financing activities	256,462	270,365	2,413,990
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(42)	99	(398)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(227,829)	(153,537)	(2,144,480)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	376,635	530,173	3,545,135
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 148,805	¥ 376,635	\$ 1,400,654

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Years Ended March 31, 2018 and 2017

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 ¥106.24 to \$1.00, the approximate rate of exchange at March 31, 2018, 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, 2018 include the accounts of the Company and its 12 significant subsidiaries, such as NTTL Holdings, Inc. (together, the “Group”).

Investments in 2 affiliates are accounted for by the equity method. The silent partnership operated by Osprey Ltd. is excluded from the scope of equity method due to the decreased materiality resulting from the termination of business.

Investment in 109 non-consolidated subsidiaries are stated at cost and are excluded from the scope of applying the equity method of accounting, including 87 operators under silent partnership agreements whose profit/loss and assets do not vest in operators, and 22 other non-consolidated subsidiaries due to their immaterial effect to the consolidated financial statements even if the equity method of accounting had been applied.

The fiscal year-ends of 1 consolidated silent partnership and 1 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 with market values, which are not classified as held-to-maturity debt securities, are stated 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 3 to 20 years for furniture and fixtures. Leased assets are depreciated using the straight-line method over the period based on the lease period or estimated useful lives of the lease assets with the residual value calculated as the estimated disposal value of the lease assets at the time of the lease termination.
- 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.
- 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 when such gains or losses occur, commencing from the following fiscal year.

- l. Asset Retirement Obligations*—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 consolidated 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 statement 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 difference between paid or received under the swap agreements are recognized and included in cost of sales.

- 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. *Accounting Standards Issued but not yet Applied*

Implementation Guidance on Tax Effect Accounting, etc.

- Implementation Guidance on Tax Effect Accounting (Accounting Standards Board of Japan (“ASBJ”) Guidance No. 28, revised on February 16, 2018)
- Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, most recently revised on February 16, 2018)

(a) Overview

In the course of the relocation of the practical guidelines related to tax effect accounting, issued by The Japanese Institute of Certified Public Accountants (“JICPA”), from the JICPA to the ASBJ, the Implementation Guidance on Tax Effect Accounting, etc. basically continue to apply the framework used in the practical guidelines of JICPA with the following revisions considered as necessary: (Major revisions in accounting treatments)

- Treatment of future taxable temporary differences pertaining to shares of subsidiaries in the non-consolidated financial statements
- Treatment of recoverability of deferred tax assets in companies that fall under Category 1

(b) Scheduled date of application

The above revisions are scheduled to be applied from the beginning of the fiscal year ending March 31, 2019.

(c) Effects of application of the standards, etc.

The effects of the application on the consolidated financial statements are currently being assessed.

Accounting Standard for Revenue Recognition, etc.

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(a) Overview

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 (IASB) and Topic606 (FASB), respectively. To respond to both IFRS 15 and Topic606 applied from the fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, ASBJ developed a comprehensive accounting standard for revenue recognition and issued it with the implementation guidance.

In developing the accounting standard for revenue recognition, ASBJ basically integrated the core principle of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. ASBJ, on the other side, considered additional alternative treatments where current practices under Japanese GAAP are to be reflected as far as such treatments would not significantly impair international comparability.

(b) Scheduled date of application

The above standard is scheduled to be applied from the beginning of the fiscal year ending March 31, 2022.

(c) Effects of application of the standards, etc.

The effects of the application on the consolidated financial statements are currently being assessed.

t. *Additional Information*

Abolishment of the directors’ retirement benefit plan

Accrued directors’ retirement benefits were 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. At the annual shareholders meeting held on June 16, 2017, a discontinuance of directors’ retirement benefits was resolved. Following the resolution, the total balance of the accrued directors’ retirement benefits was reversed, and the payable amounts related to the abolished benefits are included and presented in Other under long-term liabilities.

3. SECURITIES, INVESTMENT SECURITIES AND INVESTMENTS IN VENTURE BUSINESSES

Acquisition cost and fair value of available-for-sale securities as of March 31, 2018 and 2017 are as follows:

	Millions of Yen		
	2018		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	¥ 685	¥ 245	¥ 440
Debt securities	72,197	71,172	1,025
Others	2,168	2,140	28
Sub-total	75,051	73,557	1,493
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	41,143	41,254	(110)
Sub-total	41,143	41,254	(110)
Total	¥ 116,195	¥ 114,812	¥ 1,382
	Thousands of U.S. Dollars		
	2018		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	\$ 6,455	\$ 2,311	\$ 4,143
Debt securities	679,568	669,919	9,649
Others	20,409	20,143	265
Sub-total	706,433	692,375	14,058
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	387,271	388,314	(1,043)
Sub-total	387,271	388,314	(1,043)
Total	\$ 1,093,705	\$ 1,080,690	\$ 13,015

Unlisted equity securities of ¥2,450 million (\$23,067 thousand) and investments in partnerships of ¥1,233 million (\$11,614 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		
	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	<u>51,866</u>	<u>50,200</u>	<u>1,665</u>
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	45,152	45,442	(289)
Sub-total	<u>45,152</u>	<u>45,442</u>	<u>(289)</u>
Total	<u>¥ 97,018</u>	<u>¥ 95,643</u>	<u>¥ 1,375</u>

Unlisted equity securities of ¥2,591 million and investments in partnerships of ¥697 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, 2018 and 2017 are as follows:

	Millions of Yen		
	2018		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	¥ 514	¥ 210	¥ 0

	Thousands of U.S. Dollars		
	2018		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	\$ 4,842	\$ 1,980	\$ 0

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

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 for the year ended March 31, 2018 were ¥257 million (\$2,428 thousand). Losses on impairment of available-for-sale securities and investments in affiliates for the year ended March 31, 2017 were ¥1,136 million and ¥7 million, respectively.

As of March 31, 2018, debt securities held by the Group to earn financial income for operating purpose are included in securities and investment securities in the amount of ¥11,532 million (\$108,547 thousand) and ¥103,977 million (\$978,702 thousand), respectively. As of March 31, 2017, debt securities held by the Group to earn financial income are included in securities and investment securities in the amount of ¥1,905 million and ¥93,901 million, respectively.

4. PROPERTY AND EQUIPMENT, NET

Accumulated depreciation of leased assets and assets held for own use as of March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Leased assets	¥ 9,390	¥ 8,161	\$ 88,385
Assets held for own use	4,061	4,015	38,227

5. INVESTMENTS IN NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in non-consolidated subsidiaries and affiliates as of March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Investment securities	¥ 3,518	¥ 3,573	\$ 33,118
Other under investments and other assets	2,124	1,977	19,999

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, 2018 and 2017 consisted of the following:

	Interest Rate (%) (Notes a, b, c and d)	Millions of Yen		Thousands of U.S. Dollars
		2018	2017	2018
Short-term debt:				
Short-term bank loans	1.529	¥ 126,124	¥ 144,435	\$ 1,187,162
Commercial papers	(0.021)	39,000	15,000	367,094
Short-term borrowings		165,124	159,435	1,554,257
Lease obligations, current portion	-	489	523	4,610
Deposits received from NTT Group companies, including current portion of long-term deposits received from NTT Group companies	0.040	843,254	895,573	7,937,256
Long-term debt:				
Long-term borrowings	1.036	789,499	526,336	7,431,280
Unsecured bonds	0.05 – 0.52	149,995	145,920	1,411,850
Bonds issued under Euro Medium Term Note Program	0.85 – 2.83	181,089	144,991	1,704,531
Sub-total		1,120,583	817,247	10,547,662
Less current portion	1.088	177,903	85,511	1,674,546
Long-term debt		942,679	731,736	8,873,115
Lease obligations, excluding current portion	-	845	1,269	7,962

- 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, 2018.
 - 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, 2018 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, 2018				
Long-term borrowings	¥ 86,667	¥ 31,843	¥ 76,880	¥ 86,544
Bonds payable	39,995	61,012	98,376	10,000
Lease obligations	404	284	44	20

	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, 2018				
Long-term borrowings	\$ 815,772	\$ 299,734	\$ 723,650	\$ 814,612
Bonds payable	376,460	574,284	925,987	94,126
Lease obligations	3,805	2,681	416	192

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
	2018	2017	2018
Retirement benefit obligations at beginning of year	¥ 44,647	¥ 44,904	\$ 420,249
Current service costs	1,557	1,641	14,657
Interest costs	244	218	2,305
Actuarial gains and losses arising during year	(518)	(1,189)	(4,881)
Retirement benefits paid	(1,256)	(1,543)	(11,826)
Succession due to transfer	(467)	616	(4,404)
Retirement benefit obligations at end of year	¥ 44,206	¥ 44,647	\$ 416,098

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Plan assets at beginning of year	¥ 21,351	¥ 20,740	\$ 200,975
Expected return on plan assets	361	489	3,404
Actuarial gains and losses arising during year	303	114	2,856
Contribution from employer	315	335	2,969
Retirement benefits paid	(471)	(522)	(4,442)
Succession due to transfer	(224)	204	(2,112)
Other	(10)	(10)	(102)
Plan assets at end of year	¥ 21,625	¥ 21,351	\$ 203,549

(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
	2018	2017	2018
Retirement benefit obligations of funded plans	¥ 29,963	¥ 30,243	\$ 282,036
Plan assets	(21,625)	(21,351)	(203,549)
	8,338	8,891	78,487
Retirement benefit obligations of unfunded plans	14,242	14,404	134,061
Net balance of liability and asset recorded on the consolidated balance sheet	22,581	23,295	212,549
Defined benefit liability	23,220	23,497	218,564
Defined benefit asset	(639)	(201)	(6,015)
Net balance of liability and asset recorded on the consolidated balance sheet	¥ 22,581	¥ 23,295	\$ 212,549

(d) Profit and loss related to retirement benefits

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Current service costs	¥ 1,557	¥ 1,641	\$ 14,657
Interest costs	244	218	2,305
Expected return on plan assets	(361)	(489)	(3,404)
Amortization of actuarial gains and losses	318	445	2,995
Amortization of past service costs	(64)	(64)	(604)
Retirement benefit costs on defined benefit plans	¥ 1,694	¥ 1,752	\$ 15,948

(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
	2018	2017	2018
Past service costs	¥ (64)	¥ (64)	\$ (604)
Actuarial gains and losses	1,140	1,749	10,734
Total	¥ 1,076	¥ 1,685	\$ 10,129

(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
	2018	2017	2018
Unrecognized past service costs	¥ 420	¥ 484	\$ 3,958
Unrecognized actuarial gains and losses	(1,453)	(2,593)	(13,682)
Total	¥ (1,033)	¥ (2,109)	\$ (9,723)

(g) Breakdown of plan assets

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

	2018	2017
Cash and cash equivalents	6.72%	2.14%
Debt securities	42.47	47.39
Equity securities	13.72	13.51
Beneficiary certificates of securities investment trust	15.67	15.64
Jointly managed money trust	7.78	7.45
General account of life insurance	13.57	13.79
Other	0.07	0.08
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

	2018	2017
Actuarial assumptions at end of year:		
Discount rate	0.1 - 0.6%	0.1 - 0.7%
Long-term expected rate of return:		
NTT corporate pension fund	2.5%	2.5%
Contract-type corporate pension	1.0%	1.0%

(3) Defined Contribution Plans

The required contributions to the defined contribution plans of the Company amounted to ¥235 million (\$2,220 thousand) and ¥238 million, for the years ended March 31, 2018 and 2017, 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. 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, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
			2018
Deferred tax assets:			
Current:			
Allowance for doubtful receivables	¥ 0	¥ 1	\$ 6
Accrued enterprise taxes	380	-	3,581
Accrued bonuses	579	605	5,458
Accounts payable - other	144	148	1,358
Loss on valuation of investments in venture businesses	270	287	2,544
Unearned profit on installment sales	298	231	2,808
Others	191	171	1,806
Sub-total	1,865	1,446	17,563
Valuation allowance	(268)	(274)	(2,528)
Total deferred tax assets - current	1,597	1,171	15,035
Noncurrent:			
Allowance for doubtful receivables	105	71	991
Accrued retirement benefits	6,893	7,093	64,887
Impairment loss	0	2	0
Loss on valuation of investment securities	28	28	263
Assets for re-leasing	1,676	1,564	15,775
Provision for loss on system use agreements	697	969	6,565
Effect of change in finance lease accounting	150	-	1,414
Others	1,082	1,122	10,186
Sub-total	10,633	10,852	100,085
Valuation allowance	(733)	(771)	(6,902)
Total deferred tax assets - noncurrent	9,899	10,081	93,182
Total deferred tax assets	11,497	11,253	108,218
Deferred tax liabilities:			
Current:			
Unrealized gain on available-for-sale securities	(9)	(113)	(90)
Enterprise tax receivables	-	(29)	-
Total deferred tax liabilities - current	(9)	(142)	(90)
Noncurrent:			
Unrealized gain on available-for-sale securities	(388)	(335)	(3,654)
Effect of change in finance lease accounting	-	(418)	-
Others	(548)	(523)	(5,161)
Total deferred tax liabilities - noncurrent	(936)	(1,276)	(8,816)
Total deferred tax liabilities	(946)	(1,419)	(8,907)
Net deferred tax assets	¥ 10,550	¥ 9,834	\$ 99,311

Reconciliation between the statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2018 is not disclosed because the difference between the Japanese statutory tax rate and the effective income tax rate was less than 5% of the Japanese statutory tax rate.

Reconciliation between the statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the years ended March 31, 2017 is as follows:

	<u>2017</u>
Statutory tax rate	30.70%
Entertainment expenses permanently not deductible for income tax purposes	0.21
Tax on undistributed profits for a family corporation	1.13
Per capita inhabitant tax	0.82
Changes in valuation allowance	(9.43)
Equity in earnings of affiliates	(0.48)
Others	<u>(1.18)</u>
Actual effective tax rate	<u>21.78%</u>

10. LEASES

Lease transactions as lessor

Information relating to finance leases of the Group as lessor for the years ended March 31, 2018 and 2017 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Lease payments receivable	¥ 383,942	¥ 365,720	\$ 3,613,912
Estimated residual value	4,081	4,950	38,420
Unearned interest income	(41,550)	(39,505)	(391,104)
Investments in leases	<u>¥ 346,472</u>	<u>¥ 331,166</u>	<u>\$ 3,261,228</u>

The aggregate annual maturities of lease receivables and investments in leases as of March 31, 2018 and 2017 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, 2018						
Lease receivables	¥ 45,476	¥ 40,039	¥30,965	¥23,742	¥ 14,876	¥ 39,560
Investments in leases	109,668	85,419	67,531	53,316	28,760	39,244
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, 2018						
Lease receivables	\$ 428,058	\$ 376,879	\$ 291,469	\$ 223,480	\$ 140,023	\$ 372,369
Investments in leases	1,032,271	804,021	635,653	501,853	270,716	369,395
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

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Due in 1 year or less	¥ 2,659	¥ 3,137	\$ 25,035
Due after 1 year	12,368	15,830	116,420
Total	¥ 15,028	¥ 18,967	\$ 141,455

Lease transactions as lessee

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Due in 1 year or less	¥ 893	¥ 896	\$ 8,411
Due after 1 year	1,749	2,543	16,468
Total	¥ 2,643	¥ 3,440	\$ 24,880

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, 2018 and 2017 is estimated to decrease market value of the Group's net financial assets by ¥209 million (\$1,970 thousand) and ¥153 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, 2018 and 2017 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, 2018	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 148,805	¥ 148,805	¥ -
Installment sales receivable	94,598		
Less: allowance for doubtful receivables (Note a)	(284)		
	<u>94,314</u>	<u>95,898</u>	<u>1,583</u>
Lease receivables and investments in leases	529,416		
Less: allowance for doubtful receivables (Note a)	(1,457)		
	<u>527,958</u>	<u>530,133</u>	<u>2,174</u>
Loans receivable	1,474,956		
Less: allowance for doubtful receivables (Note a)	(150)		
	<u>1,474,805</u>	<u>1,471,754</u>	<u>(3,051)</u>
Other loans receivable	60,096		
Less: allowance for doubtful receivables (Note a)	(5)		
	<u>60,090</u>	<u>60,164</u>	<u>74</u>
Rents receivable	23,777		
Less: allowance for doubtful receivables (Note a)	(69)		
	<u>23,707</u>	<u>23,894</u>	<u>186</u>
Credit card receivables	53,066		
Less: allowance for doubtful receivables (Note a)	(1,291)		
	<u>51,775</u>	<u>51,775</u>	<u>-</u>
Billing receivables	296,609		
Less: allowance for doubtful receivables (Note a)	(13,368)		
	<u>283,240</u>	<u>283,240</u>	<u>-</u>
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	116,195	116,195	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	3,472		
Less: allowance for doubtful receivables (Note a)	(3,449)		
	<u>22</u>	<u>22</u>	<u>-</u>
Total assets	<u>¥ 2,780,917</u>	<u>¥ 2,781,885</u>	<u>¥ 968</u>

March 31, 2018	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Trade notes and accounts payable	¥ 24,334	¥ 24,334	¥ -
Short-term bank loans	126,124	126,124	-
Commercial papers	39,000	39,000	-
Lease obligations	1,335	1,253	(82)
Accounts payable - other	432,638	432,640	1
Deposits received	112,992	112,992	-
Deposits received from shareholders, directors or employees	828,811	828,811	-
Bonds payable	331,084	326,969	(4,114)
Long-term borrowings	789,499	786,734	(2,765)
Total liabilities	<u>¥ 2,685,821</u>	<u>¥ 2,678,860</u>	<u>¥ (6,960)</u>
Derivative transactions (Note b):			
Not qualifying for hedge accounting	¥ (40)	¥ (40)	¥ -
Qualifying for hedge accounting	(8,838)	(8,838)	-
Total derivative transactions	<u>¥ (8,878)</u>	<u>¥ (8,878)</u>	<u>¥ -</u>

March 31, 2018	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	\$ 1,400,654	\$ 1,400,654	\$ -
Installment sales receivable	890,425		
Less: allowance for doubtful receivables (Note a)	(2,673)		
	<u>887,751</u>	<u>902,654</u>	<u>14,903</u>
Lease receivables and investments in leases	4,983,214		
Less: allowance for doubtful receivables (Note a)	(13,720)		
	<u>4,969,493</u>	<u>4,989,963</u>	<u>20,469</u>
Loans receivable	13,883,252		
Less: allowance for doubtful receivables (Note a)	(1,420)		
	<u>13,881,832</u>	<u>13,853,113</u>	<u>(28,719)</u>
Other loans receivable	565,662		
Less: allowance for doubtful receivables (Note a)	(53)		
	<u>565,609</u>	<u>566,311</u>	<u>701</u>
Rents receivable	223,811		
Less: allowance for doubtful receivables (Note a)	(656)		
	<u>223,154</u>	<u>224,912</u>	<u>1,757</u>
Credit card receivables	499,496		
Less: allowance for doubtful receivables (Note a)	(12,152)		
	<u>487,343</u>	<u>487,343</u>	<u>-</u>
Billing receivables	2,791,878		
Less: allowance for doubtful receivables (Note a)	(125,831)		
	<u>2,666,047</u>	<u>2,666,047</u>	<u>-</u>
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	1,093,705	1,093,705	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	32,680		
Less: allowance for doubtful receivables (Note a)	(32,469)		
	<u>211</u>	<u>211</u>	<u>-</u>
Total assets	<u>\$ 26,175,803</u>	<u>\$ 26,184,916</u>	<u>\$ 9,113</u>

	Thousands of U.S. Dollars		
March 31, 2018	Carrying Amount	Fair Value	Difference
Trade notes and accounts payable	\$ 229,052	\$ 229,052	\$ -
Short-term bank loans	1,187,162	1,187,162	-
Commercial papers	367,094	367,094	-
Lease obligations	12,573	11,795	(778)
Accounts payable - other	4,072,279	4,072,295	15
Deposits received	1,063,561	1,063,561	-
Deposits received from shareholders, directors or employees	7,801,311	7,801,311	-
Bonds payable	3,116,382	3,077,650	(38,732)
Long-term borrowings	7,431,280	7,405,253	(26,026)
Total liabilities	<u>\$ 25,280,698</u>	<u>\$ 25,215,177</u>	<u>\$ (65,521)</u>
Derivative transactions (Note b)			
Not qualifying for hedge accounting	\$ (376)	\$ (376)	\$ -
Qualifying for hedge accounting	(83,190)	(83,190)	-
Total derivative transactions	<u>\$ (83,567)</u>	<u>\$ (83,567)</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.

	Millions of Yen		
March 31, 2017	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	¥ 2,487,966	¥ 2,506,599	¥ 18,633
Derivative transactions (Note b):			
Not qualifying for hedge accounting	¥ (60)	¥ (60)	¥ -
Qualifying for hedge accounting	19,382	19,382	-
Total derivative transactions	¥ 19,322	¥ 19,322	¥ -

- 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, 2018 and 2017 are summarized as follows. These instruments are excluded from investments in venture businesses, securities and investment securities in the above tables.

Classification	Type	Carrying Amount		
		Millions of Yen		Thousands of U.S. Dollars
		2018	2017	2018
Investments in affiliates	Unlisted equity securities	¥ 3,518	¥ 3,573	\$ 33,118
Available-for-sale securities	Unlisted equity securities	2,450	2,591	23,067
	Investments in partnerships	1,233	697	11,614
	Total available-for-sale securities	¥ 3,684	¥ 3,289	\$ 34,681

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

March 31, 2018	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	¥ 148,805	¥ -	¥ -	¥ -	¥ -	¥ -
Installment sales receivable (Note a)	23,791	19,842	14,543	10,343	6,494	23,011
Lease receivables and investments in leases (Notes a and b)	155,145	125,458	98,497	77,059	43,637	78,805
Loans receivable (Note a)	339,891	182,012	151,162	211,827	115,327	474,735
Other receivables (Note a)	30,009	6,900	2,940	2,172	10,467	7,605
Rents receivable (Note a)	3,415	649	1,753	3,423	4,617	9,917
Credit card receivables (Note a)	53,066	-	-	-	-	-
Billing receivables (Note a)	296,609	-	-	-	-	-
Investments in venture businesses, securities and investment securities: Available-for-sale securities with contractual maturities (Note a)	11,532	9,273	14,436	3,911	1,358	43,532

March 31, 2018	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Cash and cash equivalents	\$ 1,400,654	\$ -	\$ -	\$ -	\$ -	\$ -
Installment sales receivable (Note a)	233,938	186,769	136,891	97,359	61,129	216,596
Lease receivables and investments in leases (Notes a and b)	1,460,330	1,180,901	927,123	725,334	410,740	741,764
Loans receivable (Note a)	3,199,278	1,713,221	1,422,843	1,993,856	1,085,536	4,468,516
Other receivables (Note a)	282,468	64,956	27,678	20,447	98,528	71,583
Rents receivable (Note a)	32,153	6,116	16,504	32,226	43,465	93,345
Credit card receivables (Note a)	499,496	-	-	-	-	-
Billing receivables (Note a)	2,791,878	-	-	-	-	-
Investments in venture businesses, securities and investment securities: Available-for-sale securities with contractual maturities (Note a)	108,547	87,288	135,882	36,816	12,790	409,751

- 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, 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

- 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 contract amount, fair value and unrealized gains or losses of derivative transactions other than market trades as of March 31, 2018 and 2017 (excluding hedging transactions) are as follows. Fair value is quoted based on the price information from the counterparty financial institution.

March 31, 2018	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	¥ -	¥ (1)	¥ 2
Foreign exchange forward contracts selling position, U.S. Dollars	483	-	(38)	18
Total	¥ 1,225	¥ -	¥ (40)	¥ 20

	Thousands of U.S. Dollars			
	Contract Amount		Fair Value	Unrealized Gain/(Loss)
	Total	Due after 1 Year		
<u>March 31, 2018</u>				
Interest rate swaps (Pay fixed rate, receive variable rate)	\$ 6,979	\$ -	\$ (11)	\$ 19
Foreign exchange forward contracts selling position, U.S. Dollars	4,553	-	(364)	171
Total	<u>\$ 11,532</u>	<u>\$ -</u>	<u>\$ (376)</u>	<u>\$ 190</u>

	Millions of Yen			
	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)	¥ 741	¥ 741	¥ (3)	¥ 4
Foreign exchange forward contracts selling position, U.S. Dollars	483	483	(56)	(4)
Total	<u>¥ 1,225</u>	<u>¥ 1,225</u>	<u>¥ (60)</u>	<u>¥ (0)</u>

Derivative instruments which qualify as hedging instruments as of March 31, 2018 and 2017 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, 2018</u>				
Interest rate swaps (Note a) (Pay fixed rate, receive variable rate)	Long-term borrowings	¥ 94,471	¥ 75,331	¥ (311)
(Pay variable rate, receive fixed rate)	Bonds payable	5,312	5,312	(126)
Currency swaps (Note b) (Pay fixed rate, receive variable rate)	Long-term borrowings	120,414	120,414	(8,058)
(Pay fixed rate, receive fixed rate)	Bonds payable	125,885	125,885	(341)
Total		<u>¥ 346,083</u>	<u>¥ 326,943</u>	<u>¥ (8,838)</u>

	Hedged Item	Thousands of U.S. Dollars		
		Contract Amount		Fair Value
		Total	Due after 1 Year	
<u>March 31, 2018</u>				
Interest rate swaps (Note a) (Pay fixed rate, receive variable rate)	Long-term borrowings	\$ 889,228	\$ 709,067	\$ (2,936)
(Pay variable rate, receive fixed rate)	Bonds payable	50,000	50,000	(1,187)
Currency swaps (Note b) (Pay fixed rate, receive variable rate)	Long-term borrowings	1,133,422	1,133,422	(75,849)
(Pay fixed rate, receive fixed rate)	Bonds payable	1,184,911	1,184,911	(3,217)
Total		<u>\$ 3,257,562</u>	<u>\$ 3,077,401</u>	<u>\$ (83,190)</u>

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

- Notes:
- These contracts are not remeasured at market value, but the difference between paid or received under the swap agreements are recognized and included in cost of sales.
 - 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, 2018 and 2017 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Assets pledged as collateral:			
Lease receivables and investments in leases	¥ 3,849	¥ -	\$ 36,234
Leased assets	15,935	17,680	\$ 149,999
Total	<u>¥ 19,785</u>	<u>¥ 17,680</u>	<u>\$ 186,234</u>
Corresponding debt:			
Current portion of long-term borrowings	¥ 4,189	¥ 1,127	\$ 39,438
Long-term borrowings	11,213	12,306	105,548
Total	<u>¥ 15,403</u>	<u>¥ 13,434</u>	<u>\$ 144,987</u>

As of March 31, 2018, the Group had ¥24 million (\$230 thousand) and ¥2,400 million (\$22,596 thousand) of notes receivable which was obtained for lease and installment sales, respectively.

14. COMMITMENTS AND CONTINGENCIES

As of March 31, 2018 and 2017, the Group had the following contingent liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Guarantees in the ordinary course of business	¥ 16,000	¥ 13,628	\$ 150,609
Unexecuted loan commitments (Note)	1,709,542	1,211,176	16,091,330

- Note: The Group enters into loan commitment agreements with customers. As of March 31, 2018 and 2017, loan commitments given to customers were ¥1,955,457 million (\$18,406,035 thousand) and ¥1,662,599 million, of which ¥245,914 million (\$2,314,705 thousand) and ¥451,423 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, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrealized gain/(loss) on available-for-sale securities:			
Gains/(losses) arising during the year	¥ 84	¥ (177)	\$ 799
Reclassification adjustments	(191)	6	(1,805)
Amount before income tax effect	(106)	(171)	(1,005)
Income tax effect	50	52	472
Unrealized gain/(loss) on available-for-sale securities	(56)	(119)	(533)
Foreign currency translation adjustments:			
Gains/(losses) arising during the year	(351)	(26)	(3,306)
Foreign currency translation adjustments	(351)	(26)	(3,306)
Remeasurements of defined benefit plans:			
Gains/(losses) arising during the year	822	1,303	7,738
Reclassification adjustments	254	381	2,391
Amount before income tax effect	1,076	1,685	10,129
Income tax effect	(327)	(514)	(3,085)
Remeasurements of defined benefit plans	748	1,171	7,044
Share of other comprehensive income (loss) of affiliates accounted for using equity method:			
Gains/(losses) arising during the year	61	(172)	579
Total other comprehensive income/(loss)	¥ 402	¥ 853	\$ 3,784

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, 2018 and 2017. Assets are not allocated to reportable segments.

	Millions of Yen					
	2018					
	Reportable Segment					Total
Lease	Loan	Investment	Credit Card	Billing		
Revenue from external customers	¥ 207,022	¥ 16,018	¥ 3,365	¥ 5,394	¥ 172,675	¥ 404,476
Intersegment revenue or transfers	-	-	-	34,178	242	34,420
Total	¥ 207,022	¥ 16,018	¥ 3,365	¥ 39,573	¥ 172,917	¥ 438,896
Segment profit	¥ 10,854	¥ 4,531	¥ 1,465	¥ 3,033	¥ 7,248	¥ 27,134

	Thousands of U.S. Dollars					
	2018					
	Reportable Segment					Total
Lease	Loan	Investment	Credit Card	Billing		
Revenue from external customers	\$ 1,948,629	\$ 150,775	\$ 31,674	\$ 50,778	\$ 1,625,335	\$ 3,807,194
Intersegment revenue or transfers	-	-	-	321,708	2,279	323,987
Total	\$ 1,948,629	\$ 150,775	\$ 31,674	\$ 372,487	\$ 1,627,614	\$ 4,131,182
Segment profit	\$ 102,172	\$ 42,656	\$ 13,795	\$ 28,554	\$ 68,229	\$ 255,408

	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

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
	2018	2017	2018
Revenue:			
Reportable segments total	¥ 438,896	¥ 425,015	\$ 4,131,182
Intersegment eliminations	(34,420)	(33,123)	(323,987)
Revenue in the consolidated statements of income	¥ 404,476	¥ 391,892	\$ 3,807,194
Segment profit:			
Reportable segments total	¥ 27,134	¥ 24,916	\$ 255,408
Corporate expenses (Note)	(8,353)	(9,044)	(78,629)
Operating income in the consolidated statements of income	¥ 18,781	¥ 15,871	\$ 176,779

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, 2018 and 2017 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, 2018 and 2017 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Property and equipment:			
Japan	¥ 23,516	¥ 25,313	\$ 221,355
Asia	8,493	9,602	79,948
Total	¥ 32,010	¥ 34,916	\$ 301,304

Information about revenue by major customer for the year ended March 31, 2018 is as follows:

	Revenue		Related Segments
	Millions of Yen	Thousands of U.S. Dollars	
NTT DOCOMO, INC.	¥ 83,957	\$ 790,264	Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION	39,586	372,617	Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	38,315	360,653	Lease and Billing

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		Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION	43,392		Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	40,711		Lease and Billing

Loss on impairment of long-lived assets by reportable segment

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

Goodwill by reportable segment

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

17. RELATED PARTY TRANSACTIONS

Transactions and account balances of the Group with Nippon Telegraph and Telephone Corporation ("NTT"), which has 92.17% (direct) and 7.83% (indirect) ownership share in the Company as of and for the years ended March 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Transactions:			
Acceptance of excess funds	¥ -	¥ 78,416	\$ -
Execution of loans	227,829	95,667	2,144,477
Account balances:			
Loans receivable	366,088	186,002	3,445,864
Deposits received from shareholders, directors or employees	-	-	-

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 other NTT Group companies as of and for the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Transactions:			
Acceptance of excess funds	¥ 817,831	¥ 628,646	\$ 7,697,961
Execution of loans	709,148	570,952	6,674,962
Transactions related to transferred receivables	5,958,870	5,985,166	56,088,762
Billing-related revenue	160,959	175,282	1,515,051
Account balances:			
Billing receivables	17,998	18,240	169,414
Accounts payable - other	396,218	398,845	3,729,463
Deposits received	12,932	67,527	121,732
Deposits received from shareholders, directors or employees	810,999	905,840	7,633,650
Loans receivable	651,340	719,864	6,130,838

18. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2018 was approved at the Company's shareholders meeting held on June 22, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥249,454.00 (\$2,348.02) per share	¥ 12,813	\$ 120,606

* * * * *

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, 2018 and 2017, 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 judgment, 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, 2018 and 2017, 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, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC
June 21, 2018
Tokyo, Japan