

Consolidated Financial Statements

NTT FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the Years ended March 31, 2020 and 2019
Together with Independent Auditor's Report

NTT FINANCE CORPORATION and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2020 and 2019

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)
	2020	2019	2020		2020	2019	2020
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents (Note 12)	¥ 452,674	¥ 134,929	\$ 4,159,462	Short-term bank loans (Notes 7 and 12)	¥ 680,691	¥ 143,767	\$ 6,254,628
Lease receivables and investments in leases (Notes 11, 12, and 14)	679,553	601,519	6,244,178	Current portion of long-term borrowings (Notes 7, 12 and 14)	37,594	88,430	345,440
Trade accounts receivable (Note 12):				Current portion of bonds (Notes 7 and 12)	71,191	39,998	654,156
Installment sales (Note 14)	135,087	129,337	1,241,273	Commercial papers (Notes 7 and 12)	662,984	263,000	6,091,926
Loans (Note 18)	2,735,599	1,759,168	25,136,448	Lease obligations (Notes 7 and 12)	1,217	1,669	11,183
Other loans	32,954	56,625	302,808	Trade notes and accounts payable (Note 12)	20,500	32,978	188,372
Rents	26,116	24,998	239,979	Accounts payable - other (Notes 12 and 18)	422,293	413,941	3,880,299
Credit cards	62,153	67,772	571,102	Accrued income taxes	5,410	1,916	49,712
Billing (Note 18)	85,428	271,325	784,975	Unearned profit on installment sales	3,909	3,957	35,920
Allowance for doubtful receivables	(26,089)	(20,017)	(239,724)	Deposits received (Notes 12 and 18)	402,687	350,929	3,700,149
Investments in venture businesses (Notes 3 and 12)	4,293	2,500	39,449	Deposits received from shareholders, directors or employees (Notes 12 and 18)	592,048	556,689	5,440,124
Securities (Notes 3 and 12)	13,057	9,125	119,976	Provision for loss on system use agreements	-	946	-
Other	62,690	46,725	576,044	Asset retirement obligations	32	4	299
				Other	15,862	16,157	145,751
Total current assets	4,263,521	3,084,010	39,175,974	Total current liabilities	2,916,422	1,914,386	26,797,965
PROPERTY AND EQUIPMENT, NET (Note 4):				LONG-TERM LIABILITIES:			
Leased assets (Note 14)	32,008	30,256	294,111	Bonds (Notes 7 and 12)	258,903	244,119	2,378,974
Assets held for own use	4,957	4,185	45,554	Long-term borrowings (Notes 7, 12 and 14)	1,104,031	940,230	10,144,549
				Lease obligations (Notes 7 and 12)	16	5	150
Total property and equipment, net	36,965	34,442	339,665	Provision for loss on system use agreements	572	-	5,255
INTANGIBLE ASSETS—Assets held for own use	5,414	5,152	49,754	Defined benefit liability (Note 8)	24,709	24,709	227,046
				Deferred tax liabilities (Note 10)	93	212	862
INVESTMENTS AND OTHER ASSETS:				Asset retirement obligations	1,872	1,951	17,204
Investment securities (Notes 3, 6 and 12)	116,618	119,410	1,071,568	Other	18,139	16,137	166,679
Defined benefit asset (Note 8)	996	957	9,155	Total long-term liabilities	1,408,338	1,227,364	12,940,721
Deferred tax assets (Note 10)	12,514	10,339	114,991	Total liabilities	4,324,761	3,141,751	39,738,687
Other (Notes 6 and 12)	18,056	15,422	165,917	NET ASSETS:			
Allowance for doubtful receivables (Note 12)	(3,247)	(3,039)	(29,842)	Shareholders' equity (Notes 9 and 19):			
Total investments and other assets	144,938	143,089	1,331,790	Common stock—authorized, 80,000 shares; issued, 51,960 shares in 2020 and 2019	16,770	16,770	154,102
				Capital surplus	15,950	15,950	146,563
				Retained earnings	92,949	91,938	854,075
				Treasury stock; 595 shares in 2020 and 2019	(1,126)	(1,126)	(10,355)
				Total shareholders' equity	124,543	123,533	1,144,385
				Accumulated other comprehensive income/(loss):			
				Unrealized gain/(loss) on available-for-sale securities	1,988	2,031	18,275
				Foreign currency translation adjustments	(65)	172	(599)
				Remeasurements of defined benefit plans	(571)	(963)	(5,248)
				Total accumulated other comprehensive income/(loss)	1,352	1,240	12,427
				Non-controlling interests	183	169	1,684
				Total net assets	126,079	124,944	1,158,498
TOTAL ASSETS	¥ 4,450,840	¥ 3,266,695	\$ 40,897,185	TOTAL LIABILITIES AND NET ASSETS	¥ 4,450,840	¥ 3,266,695	\$ 40,897,185

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Consolidated Statements of Income
Years Ended March 31, 2020 and 2019**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
REVENUE (Note 17):	¥ 453,809	¥ 424,310	\$ 4,169,896
COST OF SALES	320,397	288,050	2,944,013
Gross profit/(loss)	133,412	136,259	1,225,882
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	115,190	119,635	1,058,447
Operating income/(loss) (Note 17)	18,221	16,624	167,434
OTHER INCOME:			
Interest income	0	0	5
Dividend income	53	64	496
Equity in earnings of affiliates	283	209	2,605
Gain on bad debts recovered	557	560	5,123
Foreign exchange gain	-	431	-
Other	22	40	211
Total other income	918	1,307	8,441
OTHER EXPENSES:			
Interest expense	27	50	253
Bond issuance costs	19	35	177
Foreign exchange loss	146	-	1,346
Loss on retirement of assets held for own use	342	239	3,145
Other	73	9	676
Total other expenses	609	334	5,598
EXTRAORDINARY LOSSES:			
Loss on valuation of investment securities	243	433	2,235
Total extraordinary losses	243	433	2,235
PROFIT/(LOSS) BEFORE INCOME TAXES	18,288	17,163	168,042
INCOME TAXES (Note 10):			
Current	7,935	5,341	72,918
Deferred	(2,438)	44	(22,409)
Total income taxes	¥ 5,496	¥ 5,386	\$ 50,508

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Consolidated Statements of Income
Years Ended March 31, 2020 and 2019**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
PROFIT/(LOSS)	¥ 12,791	¥ 11,776	\$ 117,533
PROFIT/(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	<u>19</u>	<u>15</u>	<u>177</u>
PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF PARENT	<u>¥ 12,771</u>	<u>¥ 11,761</u>	<u>\$ 117,356</u>
	Yen		U.S. Dollars (Note 1)
	2020	2019	2020
PER SHARE OF COMMON STOCK:			
Weighted average number of shares outstanding	51,365	51,365	
Basic earnings per share	¥ 248,649.52	¥ 228,985.42	\$ 2,284.75
Cash dividends applicable to the year (Note 19)	248,031.00	228,985.00	2,279.06

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended March 31, 2020 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
PROFIT/(LOSS)	¥ 12,791	¥ 11,776	\$ 117,533
OTHER COMPREHENSIVE INCOME/(LOSS) (Note 16):			
Unrealized gain/(loss) on available-for-sale securities	(43)	1,065	(395)
Foreign currency translation adjustments	(173)	298	(1,595)
Remeasurements of defined benefit plans	392	(245)	3,603
Share of other comprehensive income (loss) of affiliates accounted for using equity method	(63)	(136)	(584)
Total other comprehensive income/(loss)	111	981	1,027
COMPREHENSIVE INCOME/(LOSS)	¥ 12,903	¥ 12,758	\$ 118,561
Comprehensive income/(loss) attributable to:			
Owners of parent	¥ 12,883	¥ 12,743	\$ 118,383
Non-controlling interests	19	15	177

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2020 and 2019

	Millions of Yen											
	Shareholders' Equity					Accumulated Other Comprehensive Income/(Loss)						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Unrealized Gain/(Loss) on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income/(Loss)	Non- controlling Interests	Total Net Assets
BALANCE, April 1, 2018	51,365	¥ 16,770	¥ 15,950	¥ 92,992	¥ (1,126)	¥ 124,586	¥ 966	¥ 10	¥ (717)	¥ 258	¥ 373	¥ 125,218
Cash dividends, ¥249,454.00 per share				(12,813)		(12,813)						(12,813)
Profit attributable to owners of parent				11,761		11,761						11,761
Effect from change in scope of consolidation - surplus				(1)		(1)						(1)
Net changes of items other than shareholders' equity							1,065	161	(245)	981	(203)	778
BALANCE, March 31, 2019	51,365	16,770	15,950	91,938	(1,126)	123,533	2,031	172	(963)	1,240	169	124,944
Cash dividends, ¥228,985.00 per share				(11,761)		(11,761)						(11,761)
Profit attributable to owners of parent				12,771		12,771						12,771
Net changes of items other than shareholders' equity							(43)	(237)	392	111	13	125
BALANCE, March 31, 2020	51,365	¥ 16,770	¥ 15,950	¥ 92,949	¥ (1,126)	¥ 124,543	¥ 1,988	¥ (65)	¥ (571)	¥ 1,352	¥ 183	¥ 126,079

	Thousands of U.S. Dollars (Note 1)											
	Shareholders' Equity					Accumulated Other Comprehensive Income/(Loss)						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Unrealized Gain/(Loss) on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income/(Loss)	Non- controlling Interests	Total Net Assets	
BALANCE, April 1, 2019	\$ 154,102	\$ 146,563	\$ 844,794	\$ (10,355)	\$ 1,135,104	\$ 18,670	\$ 1,581	\$ (8,851)	\$ 11,400	\$ 1,561	\$ 1,148,067	
Cash dividends, \$2,104.06 per share			(108,075)		(108,075)							(108,075)
Profit attributable to owners of parent			117,356		117,356							117,356
Net changes of items other than shareholders' equity						(395)	(2,180)	3,603	1,027	122	1,149	
BALANCE, March 31, 2020	\$ 154,102	\$ 146,563	\$ 854,075	\$ (10,355)	\$ 1,144,385	\$ 18,275	\$ (599)	\$ (5,248)	\$ 12,427	\$ 1,684	\$ 1,158,498	

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2020 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
OPERATING ACTIVITIES:			
Profit before income taxes	¥ 18,288	¥ 17,163	\$ 168,042
Adjustments to reconcile profit before income taxes to net cash provided by/(used in) operating activities:			
Depreciation of leased assets and assets held for own use	4,478	4,137	41,149
Impairment loss	1,220	-	11,211
(Gain)/loss on retirement of leased assets and assets held for own use	303	338	2,786
(Increase)/decrease in defined benefit asset	(111)	(61)	(1,021)
Increase/(decrease) in defined benefit liability	636	879	5,845
Increase/(decrease) in allowance for doubtful receivables	6,280	2,973	57,710
Increase/(decrease) in provision for loss on system use agreements	(374)	(1,341)	(3,436)
Interest and dividend income	(54)	(64)	(501)
Financing costs and interest expense	16,260	15,642	149,407
Foreign exchange (gain)/loss	(12,810)	7,251	(117,713)
Equity in (earnings)/losses of affiliates	(283)	(209)	(2,605)
(Gain)/loss on valuation of investment securities	243	433	2,235
(Gain)/loss on sales of shares of affiliates	-	1	-
Bond issuance costs	19	35	177
(Increase)/decrease in trade accounts receivable - installment sales	(5,750)	(31,311)	(52,839)
(Increase)/decrease in lease receivables and investments in leases	(78,057)	(71,665)	(717,241)
(Increase)/decrease in trade accounts receivable - loans	(979,401)	(279,458)	(8,999,370)
(Increase)/decrease in trade accounts receivable - other loans	23,576	3,659	216,636
(Increase)/decrease in trade accounts receivable - rents	(1,124)	(1,221)	(10,333)
(Increase)/decrease in trade accounts receivable - credit cards	5,619	(14,706)	51,636
(Increase)/decrease in trade accounts receivable - billing	185,896	25,284	1,708,134
(Increase)/decrease in investments in venture businesses	(663)	462	(6,100)
(Increase)/decrease in other securities to earn financial income for operating purpose	(1,829)	(6,859)	(16,807)
Purchases of leased assets	(11,075)	(5,831)	(101,765)
Increase/(decrease) in trade notes and accounts payable	(12,478)	8,644	(114,659)
Increase/(decrease) in accounts payable - other	8,433	(18,780)	77,489
Increase/(decrease) in deposits received - billing	86,774	(14,900)	797,337
Other—net	(7,520)	(10,554)	(69,101)
Subtotal	(753,506)	(370,059)	(6,923,697)
Interest and dividend income received	257	270	2,364
Interest expense paid	(17,021)	(15,050)	(156,407)
Income taxes refund/(paid)	(4,555)	(9,646)	(41,858)
Net cash provided by/(used in) operating activities	¥ (774,825)	¥ (394,485)	\$ (7,119,598)

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Consolidated Statements of Cash Flows
Years Ended March 31, 2020 and 2019**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
Net cash provided by/(used in) operating activities	¥ (774,825)	¥ (394,485)	\$ (7,119,598)
INVESTING ACTIVITIES:			
Payments for purchases of investments in affiliates	(915)	(6)	(8,409)
Proceeds from sales of shares of affiliates	-	3	-
Payments for purchases of assets held for own use	(3,619)	(4,096)	(33,255)
Payments for investments in capital	(3,000)	(3,000)	(27,565)
Proceeds from redemption of investments in capital	1,540	-	14,151
Other—net	(286)	(719)	(2,633)
Net cash provided by/(used in) investing activities	(6,280)	(7,818)	(57,713)
FINANCING ACTIVITIES:			
Increase/(decrease) in short-term bank loans	541,462	13,292	4,975,309
Increase/(decrease) in commercial papers	399,946	224,000	3,674,966
Increase in long-term borrowings	223,557	354,307	2,054,189
Repayments of long-term borrowings	(101,974)	(121,621)	(937,003)
Proceeds from issuance of bonds	87,769	15,538	806,478
Redemption of bonds	(40,000)	(62,200)	(367,545)
Cash dividends paid	(11,761)	(12,813)	(108,075)
Increase/(decrease) in deposits received	(42)	(22,191)	(394)
Other—net	(45)	(224)	(413)
Net cash provided by/(used in) financing activities	1,098,912	388,087	10,097,512
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(80)	308	(743)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	317,724	(13,908)	2,919,456
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	134,929	148,805	1,239,818
INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARY	20	32	187
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 452,674	¥ 134,929	\$ 4,159,462

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Years Ended March 31, 2020 and 2019

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”), 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 ¥108.83 to \$1.00, the approximate rate of exchange at March 31, 2020, 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, 2020 include the accounts of the Company and its 15 significant subsidiaries, such as NTTL Holdings, Inc. (together, the “Group”). NTT Finance UK Limited and NTT TC Leasing Co., Ltd. were included in the scope of consolidation due to the establishments. NTT Finance Netherlands B.V., which had been a non-consolidated subsidiary until the last fiscal year, was also included in the scope of consolidation due to the increased materiality.

Investments in 3 affiliates are accounted for by the equity method. NTT Global Data Centers Corporation was included in the scope of the equity method due to the acquisition of shares.

Investment in 108 non-consolidated subsidiaries are stated at cost and are excluded from the scope of applying the equity method of accounting, including 85 operators under silent partnership agreements whose profit/loss and assets do not vest in operators, and 23 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-end of 1 consolidated subsidiary, ACHERNAR LTD., is December 31. 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 from 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 8 to 18 years for buildings, and from 2 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 net amount to be 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**

- Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020)

(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 International Financial Reporting Standards (“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.

ASBJ’s basic policy in developing the accounting standard for revenue recognition was to adopt 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. At the same time, ASBJ provided alternative treatments for matters that would require consideration of the current practices under Generally Accepted Accounting Principles in Japan (“Japanese GAAP”) 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.

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)
- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Management (ASBJ Guidance No. 31, July 4, 2019)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(a) Overview

Both IASB and FASB each established a nearly identical and detailed guidance for fair value measurement (IFRS 13 “Fair Value Measurement” in IFRS and Accounting Standards Codification Topic 802 “Fair Value Measurement” in Generally Accepted Accounting Principles in the United States (“US-GAAP”)). Given this fact, ASBJ issued the “Accounting Standard for Fair Value Measurement” to establish consistency between Japanese standards and international standards regarding the guidance and disclosure mainly for fair value of financial instruments.

ASBJ’s basic policy in developing the accounting standard for fair value measurement was to adopt entire IFRS 13 with the unified measurement methodology for a better comparability of the financial statements of domestic and foreign enterprises. ASBJ, on the other side, specified other alternative treatments in individual items considering the current practices under Japanese GAAP 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 have not yet been determined.

- Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

(a) Overview

Paragraph 125 of International Accounting Standards (“IAS”) 1 “Presentation of Financial Statements” issued by IASB in 2003 requires disclosure of “Sources of estimation uncertainty.” As this information was considered highly useful to users of financial statements, there were requests for discussion on implementation of such disclosure requirement in Japanese GAAP. Accordingly, ASBJ developed and issued the “Accounting Standard for Disclosure of Accounting Estimates.”

ASBJ’s basic policy in developing this accounting standard was to refer to requirements of Paragraph 125 of IAS 1. The standard was intended not to enhance existing note disclosure requirements, but to require enterprises to specify the purposes of disclosure and to determine what to disclose according to such purposes.

(b) Scheduled date of application

The above standard is scheduled to be applied from the end of the fiscal year ending March 31, 2021.

- Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020)

(a) Overview

In response to suggestions to discuss improving the note disclosure of “principle and procedure applied to accounting treatments when related accounting standards are undefined”, ASBJ accordingly revised the “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections.”

To avoid conflict with the current practices of disclosure when related accounting standards are defined, in adopting this standard, it should be noted that Paragraph 1-2 of annotations of Accounting Principles for Business Enterprises is still effective.

(b) Scheduled date of application

The above standard is scheduled to be applied from the end of the fiscal year ending March 31, 2021.

3. SECURITIES, INVESTMENT SECURITIES AND INVESTMENTS IN VENTURE BUSINESSES

Acquisition cost and fair value of available-for-sale securities as of March 31, 2020 and 2019 are as follows:

	Millions of Yen		
	2020		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	¥ 3,288	¥ 605	¥ 2,682
Debt securities	67,141	66,247	893
Sub-total	70,429	66,853	3,575
Securities with fair values not exceeding acquisition costs or amortized costs:			
Equity securities	3	3	(0)
Debt securities	56,104	56,801	(697)
Sub-total	56,107	56,805	(697)
Total	¥ 126,537	¥ 123,658	¥ 2,878
	Thousands of U.S. Dollars		
	2020		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	\$ 30,214	\$ 5,566	\$ 24,648
Debt securities	616,934	608,727	8,207
Sub-total	647,148	614,293	32,855
Securities with fair values not exceeding acquisition costs or amortized costs:			
Equity securities	28	29	0
Debt securities	515,525	521,933	(6,407)
Sub-total	515,554	521,962	(6,407)
Total	\$ 1,162,703	\$ 1,136,255	\$ 26,448

Unlisted equity securities of ¥1,442 million (\$13,252 thousand) and investments in partnerships of ¥1,736 million (\$15,953 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		
	2019		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	¥ 2,284	¥ 608	¥ 1,675
Debt securities	97,155	95,811	1,344
Sub-total	99,440	96,420	3,019
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	25,507	25,594	(86)
Sub-total	25,507	25,594	(86)
Total	¥ 124,947	¥ 122,014	¥ 2,933

Unlisted equity securities of ¥1,464 million and investments in partnerships of ¥1,230 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, 2020 and 2019 are as follows:

	Millions of Yen		
	2020		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	¥ 430	¥ 430	¥ -

	Thousands of U.S. Dollars		
	2020		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	\$ 3,958	\$ 3,958	\$ -

	Millions of Yen		
	2019		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	¥ 812	¥ 629	¥ 4

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 years ended March 31, 2020 and 2019 were ¥280 million (\$2,578 thousand) and ¥433 million, respectively.

As of March 31, 2020, debt securities held by the Group to earn financial income for operating purpose are included in securities and investment securities in the amount of ¥13,057 million (\$119,976 thousand) and ¥110,118 million (\$1,011,840 thousand), respectively. As of March 31, 2019, debt securities held by the Group to earn financial income are included in securities and investment securities in the amount of ¥9,125 million and ¥113,537 million, respectively.

4. PROPERTY AND EQUIPMENT, NET

Accumulated depreciation of leased assets and assets held for own use as of March 31, 2020 and 2019 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Leased assets	¥ 14,059	¥ 10,150	\$ 129,191
Assets held for own use	4,105	3,925	37,723

Accumulated depreciation of leased assets include their accumulated impairment losses.

5. LONG-LIVED ASSETS

The Group recognized an impairment loss on long-lived assets for the year ended March 31, 2020 as follows:

Classification (item)	Location	Millions of Yen		Thousands of U.S. Dollars
		2020	2019	2020
Leased assets (vehicles)	Republic of Singapore	¥ 1,220	¥ -	\$ 11,211

For some consolidated subsidiaries of the Company, the carrying amount of the certain leased assets was reduced to the recoverable amount due to the declined profitability resulting from the decreased expected future cash flows. Such reduction was recognized as impairment loss under cost of sales.

The recoverable amounts were calculated based on the future cash flows on each asset by using the value in use, where discounting was omitted due to the short term of the future cash flows from the respective assets.

6. INVESTMENTS IN NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in non-consolidated subsidiaries and affiliates as of March 31, 2020 and 2019 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Investment securities	¥ 4,254	¥ 3,393	\$ 39,088
Other under investments and other assets	2,125	2,085	19,526

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.

7. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debts as of March 31, 2020 and 2019 consisted of the following:

	Interest Rate (%) (Notes a, b, c and d)	Millions of Yen		Thousands of U.S. Dollars
		2020	2019	2020
Short-term debt:				
Short-term bank loans	0.847	¥ 680,691	¥ 143,767	\$ 6,254,628
Commercial papers	0.009	662,984	263,000	6,091,926
Short-term borrowings		1,343,675	406,767	12,346,555
Lease obligations, current portion	-	524	618	4,815
Deposits received from NTT Group companies, including current portion of long-term deposits received from NTT Group companies	0.002	823,919	823,962	7,570,702
Long-term debt:				
Long-term borrowings	0.592	1,141,625	1,028,660	10,489,989
Unsecured bonds	0.050 – 1.990	142,499	109,998	1,309,377
Bonds issued under Euro Medium Term Note Program	0.260 – 2.072	187,596	174,119	1,723,752
Sub-total		1,471,721	1,312,778	13,523,119
Less current portion	1.683	108,786	128,428	999,596
Long-term debt		1,362,935	1,184,349	12,523,523
Lease obligations, excluding current portion	-	709	1,056	6,518

- 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, 2020.
 - 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, 2020 are summarized as follows:

March 31, 2020	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
Long-term borrowings	¥ 138,374	¥ 126,267	¥ 132,887	¥ 231,899
Bonds payable	108,581	20,194	29,339	32,038
Lease obligations	236	161	105	96

March 31, 2020	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
Long-term borrowings	\$1,271,476	\$1,160,229	\$1,221,053	\$2,130,845
Bonds payable	997,716	185,556	269,588	294,387
Lease obligations	2,175	1,481	968	889

8. 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
	2020	2019	2020
Retirement benefit obligations at beginning of year	¥ 45,452	¥ 44,206	\$ 417,644
Current service costs	1,461	1,476	13,427
Interest costs	219	257	2,018
Actuarial gains and losses arising during year	(1,099)	299	(10,106)
Retirement benefits paid	(1,686)	(1,269)	(15,493)
Succession due to transfer	561	479	5,161
Other	(0)	1	(0)
Retirement benefit obligations at end of year	¥ 44,908	¥ 45,452	\$ 412,651

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

	Millions of Yen		Thousands of
	2020	2019	U.S. Dollars
			2020
Plan assets at beginning of year	¥ 21,700	¥ 21,625	\$ 199,393
Expected return on plan assets	370	368	3,401
Actuarial gains and losses arising during year	(756)	(226)	(6,952)
Contribution from employer	278	355	2,558
Retirement benefits paid	(588)	(568)	(5,403)
Succession due to transfer	203	157	1,866
Other	(11)	(10)	(103)
Plan assets at end of year	¥ 21,195	¥ 21,700	\$ 194,760

(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
	2020	2019	U.S. Dollars
			2020
Retirement benefit obligations of funded plans	¥ 30,103	¥ 30,284	\$ 276,613
Plan assets	(21,195)	(21,700)	(194,760)
	8,908	8,584	81,853
Retirement benefit obligations of unfunded plans	14,805	15,167	136,037
Net balance of liability and asset recorded on the consolidated balance sheet	23,713	23,752	217,891
Defined benefit liability	24,709	24,709	227,046
Defined benefit asset	(996)	(957)	(9,155)
Net balance of liability and asset recorded on the consolidated balance sheet	¥ 23,713	¥ 23,752	\$ 217,891

(d) Profit and loss related to retirement benefits

	Millions of Yen		Thousands of
	2020	2019	U.S. Dollars
			2020
Current service costs	¥ 1,461	¥ 1,476	\$ 13,427
Interest costs	219	257	2,018
Expected return on plan assets	(370)	(368)	(3,401)
Amortization of actuarial gains and losses	285	238	2,619
Amortization of past service costs	(64)	(64)	(590)
Retirement benefit costs on defined benefit plans	¥ 1,531	¥ 1,538	\$ 14,073

(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
	2020	2019	2020
Past service costs	¥ (64)	¥ (64)	\$ (590)
Actuarial gains and losses	628	(288)	5,773
Total	¥ 564	¥ (353)	\$ 5,183

(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
	2020	2019	2020
Unrecognized past service costs	¥ 292	¥ 356	\$ 2,684
Unrecognized actuarial gains and losses	(1,114)	(1,742)	(10,236)
Total	¥ (821)	¥ (1,386)	\$ (7,552)

(g) Breakdown of plan assets

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

	2020	2019
Cash and cash equivalents	7.23%	9.43%
Debt securities	38.95	37.11
Equity securities	14.87	15.92
Beneficiary certificates of securities investment trust	14.85	15.58
Jointly managed money trust	7.00	5.95
General account of life insurance	15.13	14.47
Other	1.97	1.54
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

	2020	2019
Actuarial assumptions at end of year:		
Discount rate	0.1 - 0.6%	0.1 - 0.5%
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 ¥240 million (\$2,214 thousand) and ¥239 million, for the years ended March 31, 2020 and 2019, respectively.

9. 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.

10. 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, 2020 and 2019 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Accrued enterprise taxes	¥ 317	¥ 166	\$ 2,918
Accrued bonuses	572	580	5,258
Accounts payable - other	142	140	1,305
Unearned profit on installment sales	403	362	3,707
Allowance for doubtful receivables	2,034	129	18,695
Accrued retirement benefits	7,235	7,251	66,480
Loss on valuation of investment securities	222	377	2,041
Assets for re-leasing	1,951	1,920	17,927
Provision for loss on system use agreements	174	288	1,603
Effect of change in finance lease accounting	106	129	977
Others	1,527	1,366	14,034
Sub-total	14,686	12,712	134,951
Valuation allowance	(1,009)	(1,154)	(9,277)
Total deferred tax assets	13,677	11,557	125,673
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(861)	(877)	(7,914)
Others	(394)	(553)	(3,628)
Total deferred tax liabilities	(1,256)	(1,430)	(11,543)
Net deferred tax assets	¥ 12,420	¥ 10,127	\$ 114,129

Reconciliation between the statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2020 and 2019 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.

11. LEASES

Lease transactions as lessor

Information relating to finance leases of the Group as lessor for the years ended March 31, 2020 and 2019 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Lease payments receivable	¥ 454,614	¥ 417,459	\$ 4,177,294
Estimated residual value	2,356	2,830	21,649
Unearned interest income	(45,514)	(42,598)	(418,216)
Investments in leases	¥ 411,456	¥ 377,692	\$ 3,780,727

The aggregate annual maturities of lease receivables and investments in leases as of March 31, 2020 and 2019 are summarized as follows:

Millions of Yen						
March 31, 2020	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
Lease receivables	¥ 60,339	¥ 52,639	¥43,997	¥33,995	¥ 23,094	¥ 73,998
Investments in leases	122,014	107,703	81,682	62,227	36,280	44,706
Thousands of U.S. Dollars						
March 31, 2020	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
Lease receivables	\$ 554,436	\$ 483,683	\$ 404,278	\$ 312,376	\$ 212,211	\$ 679,944
Investments in leases	1,121,145	989,650	750,552	571,782	333,370	410,792
Millions of Yen						
March 31, 2019	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
Lease receivables	¥ 54,639	¥ 45,436	¥37,832	¥28,832	¥ 19,883	¥ 51,155
Investments in leases	113,937	93,509	79,759	53,408	34,889	41,954

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

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due in 1 year or less	¥ 2,322	¥ 2,522	\$ 21,340
Due after 1 year	16,660	10,084	153,091
Total	¥ 18,983	¥ 12,607	\$ 174,431

Lease transactions as lessee

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

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due in 1 year or less	¥ 703	¥ 472	\$ 6,467
Due after 1 year	1,167	523	10,729
Total	¥ 1,871	¥ 996	\$ 17,197

12. 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, 2020 and 2019 is estimated to decrease market value of the Group's net financial assets by ¥315 million (\$2,899 thousand) and ¥279 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, 2020 and 2019 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, 2020	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 452,674	¥ 452,674	¥ -
Installment sales receivable	131,178		
Less: allowance for doubtful receivables (Note a)	(584)		
	<u>130,594</u>	<u>131,233</u>	<u>638</u>
Lease receivables and investments in leases	679,386		
Less: allowance for doubtful receivables (Note a)	(2,710)		
	<u>676,675</u>	<u>677,899</u>	<u>1,224</u>
Loans receivable	2,735,599		
Less: allowance for doubtful receivables (Note a)	(659)		
	<u>2,734,940</u>	<u>2,734,413</u>	<u>(526)</u>
Other loans receivable	32,954		
Less: allowance for doubtful receivables (Note a)	(25)		
	<u>32,929</u>	<u>33,124</u>	<u>194</u>
Credit card receivables	62,153		
Less: allowance for doubtful receivables (Note a)	(1,292)		
	<u>60,860</u>	<u>60,860</u>	<u>-</u>
Billing receivables	85,428		
Less: allowance for doubtful receivables (Note a)	(20,493)		
	<u>64,935</u>	<u>64,935</u>	<u>-</u>
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	126,537	126,537	-
Total assets	<u>¥ 4,280,147</u>	<u>¥ 4,281,679</u>	<u>¥ 1,531</u>

March 31, 2020	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Trade notes and accounts payable	¥ 20,500	¥ 20,500	¥ -
Short-term bank loans	680,691	680,076	(615)
Commercial papers	662,984	662,984	-
Accounts payable - other	422,293	422,293	-
Deposits received	402,687	402,687	-
Deposits received from shareholders, directors or employees	592,048	592,048	-
Bonds payable	330,095	332,142	2,046
Long-term borrowings	1,141,625	1,142,523	897
Total liabilities	<u>¥ 4,252,926</u>	<u>¥ 4,255,255</u>	<u>¥ 2,329</u>
Derivative transactions (Note b):			
Not qualifying for hedge accounting	¥ 26	¥ 26	¥ -
Qualifying for hedge accounting	(3,266)	(3,266)	-
Total derivative transactions	<u>¥ (3,240)</u>	<u>¥ (3,240)</u>	<u>¥ -</u>

March 31, 2020	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	\$ 4,159,462	\$ 4,159,462	\$ -
Installment sales receivable	1,205,353		
Less: allowance for doubtful receivables (Note a)	(5,368)		
	<u>1,199,984</u>	<u>1,205,855</u>	<u>5,870</u>
Lease receivables and investments in leases	6,242,636		
Less: allowance for doubtful receivables (Note a)	(24,908)		
	<u>6,217,727</u>	<u>6,228,979</u>	<u>11,252</u>
Loans receivable	25,136,448		
Less: allowance for doubtful receivables (Note a)	(6,058)		
	<u>25,130,390</u>	<u>25,125,552</u>	<u>(4,837)</u>
Other loans receivable	302,808		
Less: allowance for doubtful receivables (Note a)	(231)		
	<u>302,577</u>	<u>304,367</u>	<u>1,790</u>
Credit card receivables	571,102		
Less: allowance for doubtful receivables (Note a)	(11,873)		
	<u>559,228</u>	<u>559,228</u>	<u>-</u>
Billing receivables	784,975		
Less: allowance for doubtful receivables (Note a)	(188,304)		
	<u>596,671</u>	<u>596,671</u>	<u>-</u>
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	1,162,703	1,162,703	-
Total assets	<u>\$ 39,328,745</u>	<u>\$ 39,342,821</u>	<u>\$ 14,075</u>

March 31, 2020	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Difference
Trade notes and accounts payable	\$ 188,372	\$ 188,372	\$ -
Short-term bank loans	6,254,628	6,248,977	(5,651)
Commercial papers	6,091,926	6,091,926	-
Accounts payable - other	3,880,299	3,880,299	-
Deposits received	3,700,149	3,700,149	-
Deposits received from shareholders, directors or employees	5,440,124	5,440,124	-
Bonds payable	3,033,130	3,051,936	18,806
Long-term borrowings	10,489,989	10,498,236	8,247
Total liabilities	<u>\$ 39,078,621</u>	<u>\$ 39,100,023</u>	<u>\$ 21,402</u>
Derivative transactions (Note b):			
Not qualifying for hedge accounting	\$ 246	\$ 246	\$ -
Qualifying for hedge accounting	(30,018)	(30,018)	-
Total derivative transactions	<u>\$ (29,771)</u>	<u>\$ (29,771)</u>	<u>\$ -</u>

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

March 31, 2019	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 134,929	¥ 134,929	¥ -
Installment sales receivable	125,379		
Less: allowance for doubtful receivables (Note a)	(553)		
	<u>124,825</u>	<u>126,370</u>	<u>1,544</u>
Lease receivables and investments in leases	601,340		
Less: allowance for doubtful receivables (Note a)	(2,548)		
	<u>598,791</u>	<u>602,759</u>	<u>3,967</u>
Loans receivable	1,759,168		
Less: allowance for doubtful receivables (Note a)	(795)		
	<u>1,758,373</u>	<u>1,760,393</u>	<u>2,019</u>
Other loans receivable	56,625		
Less: allowance for doubtful receivables (Note a)	(30)		
	<u>56,595</u>	<u>56,803</u>	<u>208</u>
Credit card receivables	67,772		
Less: allowance for doubtful receivables (Note a)	(1,346)		
	<u>66,425</u>	<u>66,425</u>	<u>-</u>
Billing receivables	271,325		
Less: allowance for doubtful receivables (Note a)	(14,426)		
	<u>256,898</u>	<u>256,898</u>	<u>-</u>
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	124,947	124,947	-
Total assets	<u>¥ 3,121,782</u>	<u>¥ 3,129,523</u>	<u>¥ 7,740</u>

March 31, 2019	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Trade notes and accounts payable	¥ 32,978	¥ 32,978	¥ -
Short-term bank loans	143,767	143,767	-
Commercial papers	263,000	263,000	-
Accounts payable - other	413,941	413,942	1
Deposits received	350,929	350,929	-
Deposits received from shareholders, directors or employees	556,689	556,689	-
Bonds payable	284,117	288,726	4,608
Long-term borrowings	1,028,660	1,029,213	553
Total liabilities	¥ 3,074,084	¥ 3,079,247	¥ 5,162
Derivative transactions (Note b):			
Not qualifying for hedge accounting	¥ -	¥ -	¥ -
Qualifying for hedge accounting	972	972	-
Total derivative transactions	¥ 972	¥ 972	¥ -

- 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.

Change in presentation

“Rent receivable,” “Other under investments and other assets (receivables from companies in bankruptcy and reorganization)” and “Lease obligation,” presented in the previous fiscal year ended March 31, 2019, are not presented from the current fiscal year ended March 31, 2020 as they are no longer considered individually material. This change is also reflected in the presentation as of March 31, 2019. As of March 31, 2019, the carrying amount (after deduction of allowance for doubtful receivables) and the fair value of “Rent receivable” were ¥24,683 million and ¥24,814 million; the carrying amount (after deduction of allowance for doubtful receivables) and the fair value of “Other under investments and other assets (receivables from companies in bankruptcy and reorganization)” are ¥17 million and ¥17 million; the carrying amount and the fair value of “Lease obligation” were ¥1,674 million and ¥1,598 million, respectively.

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 Loans 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.

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.

Liabilities

Trade Notes and Accounts Payable, Short-term Bank Loans, Commercial Papers, Accounts Payable - Other and Deposits Received

The carrying amounts of these items approximate their fair values because of their short maturities, except for liabilities denominated in foreign currencies and hedged by foreign exchange forward contracts which meet specific matching criteria.

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 13 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, 2020 and 2019 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
		2020	2019	2020
Investments in affiliates	Unlisted equity securities	¥ 4,254	¥ 3,393	\$ 39,088
Available-for-sale securities	Unlisted equity securities	1,442	1,464	13,252
	Investments in partnerships	1,736	1,230	15,953
	Total available-for-sale securities	¥ 3,178	¥ 2,695	\$ 29,205

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

March 31, 2020	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	¥ 452,674	¥ -	¥ -	¥ -	¥ -	¥ -
Installment sales receivable (Note a)	35,281	29,602	22,949	17,562	10,819	18,872
Lease receivables and investments in leases (Notes a and b)	182,353	160,342	125,680	96,223	59,375	118,704
Loans receivable (Note a)	1,056,964	302,612	195,996	219,377	371,313	589,335
Other receivables (Note a)	17,720	2,169	1,414	5,095	672	5,881
Credit card receivables (Note a)	62,153	-	-	-	-	-
Billing receivables (Note a)	85,428	-	-	-	-	-
Investments in venture businesses, securities and investment securities: Available-for-sale securities with contractual maturities (Note a)	13,057	5,718	4,439	6,404	4,109	43,410

March 31, 2020	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	\$ 4,159,462	\$ -	\$ -	\$ -	\$ -	\$ -
Installment sales receivable (Note a)	324,188	272,009	210,870	161,375	99,416	173,411
Lease receivables and investments in leases (Notes a and b)	1,675,582	1,473,334	1,154,830	884,158	545,582	1,090,737
Loans receivable (Note a)	9,712,073	2,780,597	1,800,938	2,015,783	3,411,863	5,415,191
Other receivables (Note a)	162,828	19,935	13,000	46,823	6,178	54,042
Credit card receivables (Note a)	571,102	-	-	-	-	-
Billing receivables (Note a)	784,975	-	-	-	-	-
Investments in venture businesses, securities and investment securities: Available-for-sale securities with contractual maturities (Note a)	119,976	52,543	40,793	58,846	37,756	398,887

- 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, 2019	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	¥ 134,929	¥ -	¥ -	¥ -	¥ -	¥ -
Installment sales receivable (Note a)	32,050	26,582	21,209	15,220	11,581	22,692
Lease receivables and investments in leases (Notes a and b)	168,576	138,945	117,592	82,241	54,773	93,109
Loans receivable (Note a)	365,527	160,827	280,505	170,336	178,259	603,712
Other receivables (Note a)	29,064	3,166	2,357	10,470	4,773	6,793
Rents receivable (Note a)	8,576	4,820	4,218	3,369	2,346	1,666
Credit card receivables (Note a)	67,772	-	-	-	-	-
Billing receivables (Note a)	271,325	-	-	-	-	-
Investments in venture businesses, securities and investment securities: Available-for-sale securities with contractual maturities (Note a)	9,125	14,228	6,763	1,972	6,516	48,635

- 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 7 on short-term and long-term debt.

13. DERIVATIVES

The aggregate contract amount, fair value and unrealized gains or losses of derivative transactions other than market trades as of March 31, 2020 (excluding hedging transactions) are as follows. The fair value of currency swaps is measured by discounting future cash flows to the present value using observable market condition such as London Interbank Offered Rate (LIBOR), swap rates and exchange rates.

March 31, 2020	Millions of Yen			
	Contract Amount		Fair Value	Unrealized Gain/(Loss)
	Total	Due after 1 Year		
Currency swaps (Pay fixed rate, receive variable rate)	¥ 3,600	¥ -	¥ 26	¥ 26
Total	¥ 3,600	¥ -	¥ 26	¥ 26

	Thousands of U.S. Dollars			
	Contract Amount		Fair Value	Unrealized Gain/(Loss)
	Total	Due after 1 Year		
<u>March 31, 2020</u>				
Currency swaps (Pay fixed rate, receive variable rate)	\$ 33,084	\$ -	\$ 246	\$ 246
Total	\$ 33,084	\$ -	\$ 246	\$ 246

There are no respective contract amount of derivative transactions other than market trades as of March 31, 2019.

Derivative instruments which qualify as hedging instruments as of March 31, 2020 and 2019 are summarized as follows. The fair value of interest rate swaps and currency swaps is measured by discounting future cash flows to the present value using observable market condition such as London Interbank Offered Rate (LIBOR), swap rates and exchange rates.

	Hedged Item	Millions of Yen		
		Contract Amount		Fair Value
		Total	Due after 1 Year	
<u>March 31, 2020</u>				
Interest rate swaps (Note a)	Long-term borrowings	¥ 62,928	¥ 57,074	¥ (2,814)
(Pay fixed rate, receive variable rate)	Bonds payable	5,441	-	8
(Pay variable rate, receive fixed rate)	Long-term borrowings	114,024	47,417	(5,957)
Currency swaps (Note b)	Bonds payable	140,566	107,326	5,496
(Pay fixed rate, receive variable rate)				
(Pay fixed rate, receive fixed rate)				
Total		¥ 322,960	¥ 211,818	¥ (3,266)

	Hedged Item	Thousands of U.S. Dollars		
		Contract Amount		Fair Value
		Total	Due after 1 Year	
<u>March 31, 2020</u>				
Interest rate swaps (Note a)	Long-term borrowings	\$ 578,226	\$ 524,436	\$(25,860)
(Pay fixed rate, receive variable rate)	Bonds payable	50,000	-	75
(Pay variable rate, receive fixed rate)	Long-term borrowings	1,047,730	435,702	(54,742)
Currency swaps (Note b)	Bonds payable	1,291,613	986,183	50,509
(Pay fixed rate, receive variable rate)				
(Pay fixed rate, receive fixed rate)				
Total		\$2,967,570	\$ 1,946,322	\$(30,018)

	Hedged Item	Millions of Yen		
		Contract Amount		Fair Value
		Total	Due after 1 Year	
<u>March 31, 2019</u>				
Interest rate swaps (Note a)	Long-term borrowings	¥ 70,658	¥ 70,044	¥ (1,702)
(Pay fixed rate, receive variable rate)	Bonds payable	5,549	5,549	(75)
(Pay variable rate, receive fixed rate)	Long-term borrowings	120,414	84,558	(3,370)
Currency swaps (Note b)	Bonds payable	125,885	125,885	6,120
(Pay fixed rate, receive variable rate)				
(Pay fixed rate, receive fixed rate)				
Total		¥ 322,507	¥ 286,037	¥ 972

- Notes:
- a. These contracts are not remeasured at market value, but the net amount to be paid or received under the swap agreements are recognized and included in cost of sales.
 - b. Hedged items are translated at the foreign exchange rates stipulated in the contracts, and gains or losses on swap transactions are deferred until the gains or losses on the corresponding hedged items are recognized in income.

14. PLEDGED ASSETS AND COLLATERAL

As of March 31, 2020 and 2019 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Assets pledged as collateral:			
Leased assets	¥ 13,016	¥ 13,904	\$ 119,605
Total	¥ 13,016	¥ 13,904	\$ 119,605
Corresponding debt:			
Current portion of long-term borrowings	¥ 883	¥ 876	\$ 8,117
Long-term borrowings	9,453	10,336	86,862
Total	¥ 10,336	¥ 11,213	\$ 94,979

As of March 31, 2020, the Group had ¥13 million (\$119 thousand) and ¥1,553 million (\$14,276 thousand) of notes receivable which was obtained for lease and installment sales, respectively. The respective notes receivable as of March 31, 2019 amounted to ¥83 million and ¥1,618 million.

15. COMMITMENTS AND CONTINGENCIES

As of March 31, 2020 and 2019, the Group had the following contingent liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Guarantees in the ordinary course of business	¥ 24,439	¥ 22,822	\$ 224,568
Unexecuted loan commitments (Note)	2,149,409	1,805,058	19,750,154

Note: The Group enters into loan commitment agreements with customers. As of March 31, 2020 and 2019, loan commitments given to customers were ¥3,077,769 million (\$28,280,521 thousand) and ¥2,019,300 million, of which ¥928,359 million (\$8,530,367 thousand) and ¥214,242 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.

16. COMPREHENSIVE INCOME

Reclassification adjustments and related income tax effect on other comprehensive income for the years ended March 31, 2020 and 2019 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized gain/(loss) on available-for-sale securities:			
Gains/(losses) arising during the year	¥ 318	¥ 1,871	\$ 2,928
Reclassification adjustments	(384)	(326)	(3,532)
Amount before income tax effect	(65)	1,545	(604)
Income tax effect	22	(479)	208
Unrealized gain/(loss) on available-for-sale securities	(43)	1,065	(395)
Foreign currency translation adjustments:			
Gains/(losses) arising during the year	(173)	298	(1,595)
Foreign currency translation adjustments	(173)	298	(1,595)
Remeasurements of defined benefit plans:			
Gains/(losses) arising during the year	343	(526)	3,154
Reclassification adjustments	220	173	2,029
Amount before income tax effect	564	(353)	5,183
Income tax effect	(171)	107	(1,580)
Remeasurements of defined benefit plans	392	(245)	3,603
Share of other comprehensive income (loss) of affiliates accounted for using equity method:			
Gains/(losses) arising during the year	(63)	(136)	(584)
Total other comprehensive income/(loss)	¥ 111	¥ 981	\$ 1,027

17. 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 comprising lease activities. The reportable segments of the Group are composed of five segments: “Leasing business,” “International business,” “Finance business,” “Credit card business” and “Billing business.”

“Leasing business” includes lease, installment sales, loans, factoring services and investments in debt securities, which are provided in Japan. “International business” includes lease, loans, factoring services and investments in debt securities and silent partnerships, etc., which are provided outside Japan. “Finance business” includes loans for domestic and overseas NTT Group companies. “Credit card business” includes sales financing and consumer loans. “Billing business” includes billing and collection services for telecommunication service charges.

With the development of NTT Group’s global operations, the Company has been actively promoting its global operations, e.g. by establishing a business office in the U.S. and new subsidiaries in Europe, to enhance the support base for NTT Group. To provide more appropriate information reflecting these business activities and environment, the Company changed its business segments from the previous five segments (“Lease business,” “Loan business,” “Investment business,” “Credit card business” and “Billing business”) to the new five segments (“Leasing business,” “International business,” “Finance business,” “Credit card business” and “Billing business”), effective April 1, 2019.

The segment information for the year ended March 31, 2019, is also disclosed using the new business segments.

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, 2020 and 2019.

	Millions of Yen					
	2020					
	Reportable Segment					Total
Leasing	International	Finance	Credit Card	Billing		
Revenue from external customers	¥ 253,428	¥ 18,861	¥ 13,474	¥ 5,350	¥ 162,694	¥ 453,809
Intersegment revenue or transfers	-	-	-	39,596	224	39,821
Total	¥ 253,428	¥ 18,861	¥ 13,474	¥ 44,946	¥ 162,918	¥ 493,630
Segment profit	¥ 13,558	¥ 3,320	¥ 2,200	¥ 2,976	¥ 4,993	¥ 27,048
Segment assets	¥ 1,031,494	¥ 280,890	¥ 2,423,967	¥ 64,838	¥ 75,254	¥ 3,876,444
	Thousands of U.S. Dollars					
	2020					
	Reportable Segment					Total
Leasing	International	Finance	Credit Card	Billing		
Revenue from external customers	\$ 2,328,666	\$ 173,314	\$ 123,814	\$ 49,162	\$ 1,494,938	\$ 4,169,896
Intersegment revenue or transfers	-	-	-	363,837	2,064	365,902
Total	\$ 2,328,666	\$ 173,314	\$ 123,814	\$ 413,000	\$ 1,497,002	\$ 4,535,798
Segment profit	\$ 124,582	\$ 30,508	\$ 20,215	\$ 27,348	\$ 45,884	\$ 248,537
Segment assets	\$ 9,478,031	\$ 2,580,998	\$ 22,272,968	\$ 595,773	\$ 691,490	\$ 35,619,263
	Millions of Yen					
	2019					
	Reportable Segment					Total
Leasing	International	Finance	Credit Card	Billing		
Revenue from external customers	¥ 222,784	¥ 18,627	¥ 11,694	¥ 5,399	¥ 165,805	¥ 424,310
Intersegment revenue or transfers	-	-	-	35,658	232	35,891
Total	¥ 222,784	¥ 18,627	¥ 11,694	¥ 41,058	¥ 166,037	¥ 460,202
Segment profit	¥ 11,283	¥ 3,624	¥ 1,860	¥ 3,243	¥ 5,167	¥ 25,178
Segment assets	¥ 966,974	¥ 263,586	¥ 1,463,918	¥ 70,677	¥ 253,712	¥ 3,018,869

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
	2020	2019	2020
Revenue:			
Reportable segments total	¥ 493,630	¥ 460,202	\$ 4,535,798
Intersegment eliminations	(39,821)	(35,891)	(365,902)
Revenue in the consolidated statements of income	¥ 453,809	¥ 424,310	\$ 4,169,896
Segment profit:			
Reportable segments total	¥ 27,048	¥ 25,178	\$ 248,537
Corporate expenses (Note a)	(8,826)	(8,554)	(81,102)
Operating income in the consolidated statements of income	¥ 18,221	¥ 16,624	\$ 167,434
Segment assets:			
Reportable segments total	¥ 3,876,444	¥ 3,018,869	\$ 35,619,263
Corporate assets (Note b)	574,396	247,825	5,277,922
Assets in the consolidated balance sheets	¥ 4,450,840	¥ 3,266,695	\$ 40,897,185

- Notes: a. Corporate expenses mainly represent general and administrative expenses not attributable to reportable segments.
b. Corporate assets mainly represent deposits not attributable to reportable segments.

Related information

Information about revenue from external customers by product and service for the years ended March 31, 2020 and 2019 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Revenue from external customers:			
Financial service	¥ 285,765	¥ 253,105	\$ 2,625,795
Credit card	5,350	5,399	49,162
Billing	162,694	165,805	1,494,938
Total	¥ 453,809	¥ 424,310	\$ 4,169,896

Disclosures on information about revenue by geographical area for the years ended March 31, 2020 and 2019 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, 2020 and 2019 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Property and equipment:			
Japan	¥ 19,978	¥ 20,600	\$ 183,576
Asia	16,987	13,841	156,089
Total	¥ 36,965	¥ 34,442	\$ 339,665

Information about revenue by major customer for the year ended March 31, 2020 is as follows:

	Revenue		Related Segments
	Millions of Yen	Thousands of U.S. Dollars	
NTT DOCOMO, INC.	¥ 92,418	\$ 849,200	Leasing and Billing
NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION	30,490	280,163	Leasing and Billing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	30,308	278,492	Leasing and Billing

Information about revenue by major customer for the year ended March 31, 2019 is as follows:

	Revenue		Related Segments
	Millions of Yen		
NTT DOCOMO, INC.	¥ 86,090		Leasing and Billing
NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION	34,997		Leasing and Billing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	34,387		Leasing and Billing

Loss on impairment of long-lived assets by reportable segment

Loss on impairment of long-lived assets by reportable segment for the year ended March 31, 2020 is as follows:

	Millions of Yen						
	2020						
	Reportable Segment					Corporate Assets	Total
	Leasing	International	Finance	Credit Card	Billing		
Impairment loss	¥ -	¥ 1,220	¥ -	¥ -	¥ -	¥ -	¥ 1,220

	Thousands of U.S. Dollars						
	2020						
	Reportable Segment					Corporate Assets	Total
	Leasing	International	Finance	Credit Card	Billing		
Impairment loss	\$ -	¥ 11,211	\$ -	\$ -	\$ -	¥ -	\$ 11,211

For the year ended March 31, 2019, 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.

18. 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, 2020 and 2019 are as follows:

	Millions of Yen		Thousands of
	2020	2019	U.S. Dollars
Transactions:			2020
Acceptance of excess funds	¥ -	¥ 10,597	\$ -
Execution of loans	533,864	465,797	4,905,491
Account balances:			
Loans receivable	771,775	370,000	7,091,567
Deposits received from shareholders, directors or employees	-	42,985	-

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 14 and 11 other NTT Group companies as of and for the years ended March 31, 2020 and 2019, respectively, are summarized as follows:

	Millions of Yen		Thousands of
	2020	2019	U.S. Dollars
Transactions:			2020
Execution of loans	¥ 1,199,509	¥ 759,954	\$ 11,021,868
Acceptance of excess funds	587,418	776,072	5,397,576
Transactions related to transferred receivables	5,968,581	5,879,714	54,843,164
Billing-related revenue	152,186	154,516	1,398,390
Account balances:			
Billing receivables	9,279	16,612	85,261
Accounts payable - other	380,115	375,067	3,492,747
Deposits received	54,983	12,152	505,222
Deposits received from shareholders, directors or employees	552,930	484,165	5,080,678
Loans receivable	1,329,724	875,135	12,218,360

19. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2020 was approved at the Company’s shareholders meeting held on June 19, 2020:

	Millions of Yen	Thousands of
		U.S. Dollars
Year-end cash dividends, ¥248,031.00 (\$2,279.06) per share	¥ 12,740	\$ 117,064

20. SUPPLEMENTAL INFORMATION

Absorption-type Company Split Agreement

On March 2, 2020, the Company concluded an absorption-type company split (the “Company Split”) agreement with the NTT TC Leasing Co., Ltd., established by the Company as a wholly owned subsidiary (the “New Company”), where the rights and obligations of part of the leasing business and international business of the Company will be assumed by the New Company. The agreement is subject to approval and adoption at the Annual Shareholders’ Meeting of the Company to be held in June 2020.

(1) Purpose

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

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

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

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

(2) Outline

a. Legal form of the Company Split

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

b. Corporate name of the succeeding company:

NTT TC Leasing Co., Ltd.

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

Leasing businesses, international businesses

d. Accounting treatment:

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

(3) Effective date of the agreement

July 1, 2020 (planned)

Effect of the Novel Coronavirus Disease (COVID-19)

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

* * * * *

Independent Auditor's Report

To the Board of Directors of NTT FINANCE CORPORATION:

Opinion

We have audited the accompanying consolidated financial statements of NTT FINANCE CORPORATION ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether

due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

KPMG AZSA LLC
Tokyo Office, Japan
June 25, 2020