

Interim Consolidated Financial Statements (Unaudited)

For the Six Months Ended September 30, 2014

<Under Japanese GAAP>

NTT FINANCE CORPORATION

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NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Balance Sheet
September 30, 2014 as compared with March 31, 2014—Unaudited

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)
	September 30, 2014	March 31, 2014	September 30, 2014		September 30, 2014	March 31, 2014	September 30, 2014
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents	¥ 395,942	¥ 373,295	\$ 3,617,569	Short-term bank loans	¥ 97,932	¥ 90,127	\$ 894,772
Leases receivable and investments in leases	376,842	376,242	3,443,055	Current portion of long-term borrowings	54,390	47,503	496,946
Trade accounts receivable:				Current portion of bonds	44,999	39,998	411,138
Installment sales	45,922	38,364	419,573	Commercial papers	102,998	54,999	941,055
Loans (Note 4)	900,230	948,401	8,225,039	Trade notes and accounts payable	15,733	22,874	143,746
Other loans (Note 4)	48,531	47,288	443,415	Accounts payable - other	425,399	423,178	3,886,697
Rents	18,499	18,308	169,018	Accrued income taxes	3,778	1,161	34,520
Credit cards	43,444	41,195	396,933	Deferred profit on installment sales	1,383	1,142	12,640
Billing	152,850	153,835	1,396,536	Deposits received	145,696	267,749	1,331,171
Allowance for doubtful receivables	(31,509)	(30,687)	(287,890)	Deposits received from shareholders, directors or employees	412,362	447,387	3,767,589
Investments in venture businesses	2,294	1,594	20,961	Asset retirement obligations	194	-	1,776
Securities	5,346	4,008	48,851	Other	22,952	22,489	209,704
Other	54,071	52,083	494,032				
Total current assets	2,012,467	2,023,928	18,387,096	Total current liabilities	1,327,821	1,418,612	12,131,760
PROPERTY AND EQUIPMENT, NET:				LONG-TERM LIABILITIES:			
Leased assets	17,926	8,180	163,788	Bonds	217,432	185,469	1,986,595
Assets held for own use	4,856	5,256	44,375	Long-term borrowings	198,513	152,963	1,813,734
Total property and equipment, net	22,783	13,436	208,164	Net defined benefit liability	8,056	8,322	73,607
INTANGIBLE ASSETS—Assets held for own use	4,958	5,582	45,303	Accrued directors' retirement benefits	39	53	363
INVESTMENTS AND OTHER ASSETS:				Long-term deposits received from shareholders, directors or employees	240,000	240,000	2,192,782
Investment securities	56,777	58,518	518,749	Reserve for loss on business of affiliates	60	129	555
Other (Note 4)	19,662	25,123	179,645	Asset retirement obligations	2,049	2,239	18,728
Allowance for doubtful receivables	(4,887)	(6,003)	(44,654)	Other	8,022	7,212	73,294
Allowance for investment loss	(1)	(93)	(11)				
Total investments and other assets	71,550	77,544	653,729	Total long-term liabilities	674,174	596,391	6,159,661
				Total liabilities	2,001,996	2,015,004	18,291,421
				NET ASSETS:			
				Shareholders' equity (Note 6):			
				Common stock—authorized, 80,000 shares;			
				issued, 51,960 shares as of September 30 and March 31, 2014	16,770	16,770	153,229
				Capital surplus	15,950	15,950	145,733
				Retained earnings	75,886	71,885	693,343
				Treasury stock; 595 shares as of September 30 and March 31, 2014	(1,126)	(1,126)	(10,296)
				Total shareholders' equity	107,480	103,480	982,008
				Accumulated other comprehensive income:			
				Unrealized gain on available-for-sale securities	1,229	1,177	11,235
				Foreign currency translation adjustments	256	57	2,339
				Remeasurements of defined benefit plans	108	108	994
				Total accumulated other comprehensive income	1,594	1,343	14,569
				Minority interests	688	664	6,293
				Total net assets	109,764	105,487	1,002,871
TOTAL ASSETS	¥ 2,111,760	¥ 2,120,491	\$ 19,294,293	TOTAL LIABILITIES AND NET ASSETS	¥2,111,760	¥2,120,491	\$ 19,294,293

See notes to interim consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Six-Month Periods Ended September 30, 2014 and 2013—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2014	2013	2014
REVENUE	¥ 200,882	¥ 202,403	\$ 1,835,380
COST OF SALES	116,008	117,644	1,059,921
Gross profit	84,874	84,758	775,459
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	75,056	75,719	685,756
Operating income	9,817	9,039	89,702
OTHER INCOME:			
Interest income	0	0	0
Dividend income	53	21	485
Gain on bad debts recovered	158	59	1,445
Equity in earnings of affiliates	32	43	300
Foreign exchange gain	119	27	1,094
Other	34	19	312
Total other income	398	172	3,638
OTHER EXPENSES:			
Interest expense	110	140	1,009
Bond issuance costs	101	54	928
Other	42	46	389
Total other expenses	254	241	2,326
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	9,961	8,970	91,014
INCOME TAXES	3,491	3,620	31,902
INCOME BEFORE MINORITY INTERESTS	6,469	5,350	59,112
MINORITY INTERESTS IN INCOME	24	13	225
NET INCOME	¥ 6,445	¥ 5,337	\$ 58,886

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Six-Month Periods Ended September 30, 2014 and 2013—Unaudited

	Yen		U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2014	2013	2014
PER SHARE OF COMMON STOCK:			
Weighted average number of shares outstanding	51,365	51,947	
Basic net income	¥ 125,478.08	¥ 102,741.99	\$ 1,146.44

See notes to interim consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Interim Consolidated Statements of Comprehensive Income
Six-Month Periods Ended September 30, 2014 and 2013—Unaudited**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2014	2013	2014
INCOME BEFORE MINORITY INTERESTS	¥ 6,469	¥ 5,350	\$ 59,112
OTHER COMPREHENSIVE INCOME:			
Net unrealized gain/(loss) on available-for-sale securities	52	(226)	478
Foreign currency translation adjustments	273	126	2,495
Remeasurements of defined benefit plans, net of tax	0	-	5
Share of other comprehensive income of affiliates accounted for using equity method	(74)	143	(681)
Total other comprehensive income	<u>251</u>	<u>43</u>	<u>2,298</u>
COMPREHENSIVE INCOME	<u>¥ 6,721</u>	<u>¥ 5,394</u>	<u>\$ 61,410</u>
Comprehensive income attributable to:			
Owners of the parent	¥ 6,696	¥ 5,380	\$ 61,185
Minority interests	24	13	225

See notes to interim consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows

Six-Month Periods Ended September 30, 2014 and 2013—Unaudited

	Millions of Yen		Thousands of
	Six-Month Period Ended		U.S. Dollars
	September 30		(Note 1)
	2014	2013	Six-Month Period Ended September 30 2014
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 9,961	¥ 8,970	\$ 91,014
Adjustments for:			
Depreciation of leased assets and assets held for own use	2,002	2,025	18,295
Loss on retirement of leased assets and assets held for own use	73	158	675
Decrease in allowance for investment loss	(92)	-	(847)
Increase in accrued retirement benefits	-	515	-
Increase in net defined benefit liability	321	-	2,934
Decrease in accrued directors' retirement benefits	(14)	(13)	(128)
(Decrease)/increase in allowance for doubtful receivables	(293)	6,496	(2,680)
Decrease in reserve for loss on business of affiliates	(69)	(292)	(630)
Interest and dividend income	(53)	(21)	(486)
Financing costs and interest expense	2,452	2,543	22,405
Foreign exchange gain	(119)	(27)	(1,094)
Equity in earnings of affiliates	(32)	(43)	(300)
Loss on valuation of investment securities	1	1	16
Bond issuance costs	101	54	928
(Increase)/decrease in leases receivable and investments in leases	(424)	2,036	(3,881)
Increase in trade accounts receivable - installment sales	(7,558)	(6,033)	(69,055)
Decrease/(increase) in trade accounts receivable - loans	51,194	(191,350)	467,745
(Increase)/decrease in trade accounts receivable - other loans	(856)	8,014	(7,829)
(Increase)/decrease in trade accounts receivable - rents	(190)	428	(1,740)
(Increase)/decrease in trade accounts receivable - credit cards	(2,249)	2,067	(20,549)
Decrease in trade accounts receivable - billing	984	163,196	8,993
Increase in investments in venture businesses	(467)	(134)	(4,274)
Decrease/(increase) in other securities to earn financial income for operating purpose	282	(5,118)	2,580
Purchases of leased assets	(10,460)	(192)	(95,572)
(Decrease)/increase in trade notes and accounts payable	(7,140)	16	(65,244)
Increase in accounts payable - other	2,220	3,188	20,290
Other—net	11,613	60,619	106,104
Subtotal	51,186	57,106	467,667
Interest and dividend income received	79	47	730
Interest expense paid	(2,501)	(2,402)	(22,852)
Income taxes paid	(887)	(8,826)	(8,105)
Net cash provided by operating activities—(Forward)	¥ 47,877	¥ 45,925	\$ 437,439

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows
Six-Month Periods Ended September 30, 2014 and 2013—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2014	2013	2014
Net cash provided by operating activities—(Forward)	¥ 47,877	¥ 45,925	\$ 437,439
INVESTING ACTIVITIES:			
Proceeds from withdrawal of time deposits	2	517	18
Payments for purchases of investment securities	-	(299)	-
Payments for purchases of shares of subsidiaries and associates	(9)	-	(82)
Payments for purchases of assets held for own use	(411)	(748)	(3,762)
Payments for purchases of investments in capital	-	(1,500)	-
Proceeds from redemption of investments in capital	4,234	-	38,687
Other—net	(90)	144	(823)
Net cash provided by/(used in) investing activities	3,725	(1,886)	34,036
FINANCING ACTIVITIES:			
Increase in short-term bank loans	2,480	938	22,667
Increase in commercial papers	47,999	160,993	438,551
Increase in long-term borrowings	72,277	32,563	660,365
Repayments of long-term borrowings	(26,982)	(32,302)	(246,526)
Decrease in payables associated with securitization of receivables	-	(1,000)	-
Proceeds from issuance of bonds	55,200	19,941	504,348
Redemption of bonds	(20,000)	(20,000)	(182,731)
Payments for purchases of treasury stock	-	(1,126)	-
Cash dividends paid	(2,823)	(3,563)	(25,792)
Decrease in deposits received	(157,216)	(28,422)	(1,436,424)
Other—net	35	3	322
Net cash (used in)/provided by financing activities	(29,028)	128,025	(265,220)
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	72	374	665
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,647	172,439	206,920
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	373,295	184,988	3,410,648
CASH AND CASH EQUIVALENTS, END OF PERIOD	¥ 395,942	¥ 357,427	\$ 3,617,569

See notes to interim consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Notes to Interim Consolidated Financial Statements—Unaudited

1. BASIS OF PRESENTATION OF INTERIM 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 and the Financial Instruments and Exchange Act of Japan and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The accompanying interim consolidated financial statements have been compiled from the interim 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 interim 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.

The accounting standard for quarterly financial statements requires companies to prepare a set of interim consolidated financial statements for each quarter comprised of the consolidated balance sheet as of the current quarter-end and the consolidated statements of income, comprehensive income and cash flows for the year-to-date period. Consolidated statements of changes in net assets are not required.

Effective April 1, 2011, under the revised accounting standard for quarterly financial statements, the year-to-date consolidated statements of cash flows for the first quarter and the third quarter are not required but may be prepared at the company’s option. In addition, the consolidated statements of income, and comprehensive income for the current quarter are not required but may be prepared at the company’s option.

The consolidated statements of cash flows and changes in net assets are not presented herein.

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 interim 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 ¥109.45 to \$1.00, the approximate rate of exchange at September 30, 2014, and then the translated amounts have been rounded down to the nearest thousand. As a result, the totals shown in the accompanying interim 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. SIGNIFICANT ACCOUNTING POLICIES

Substantially the same accounting policies have been followed in these interim consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended March 31, 2014.

From the first quarter of the year ending March 31, 2015, NTT Leasing Singapore Pte. Ltd., a newly established company, was included in the scope of consolidation.

3. CHANGES IN ACCOUNTING POLICIES

Application of Accounting Standard for Retirement Benefits

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

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

As a result of this change, net defined benefit liability decreased by ¥586 million (\$5,356 thousand) and retained earnings increased by ¥378 million (\$3,458 thousand) as of April 1, 2014. The effects on operating income and income before income taxes and minority interests, however, were immaterial for the six-month period ended September 30, 2014.

Accounting treatment of past service costs

From the third quarter of the previous fiscal year, the Company has changed the accounting treatment of past service costs related to retirement benefit accounting from one where the past service costs are fully charged to income in the fiscal year they occurred to one where past service costs are amortized by the straight-line method over a period of years based on the average remaining years of service of the employees at the time such past service costs occurred.

Therefore, the relevant accounting policy applied to the six-month period ended September 30, 2014 is different from one applied to the corresponding period of the fiscal year ended March 31, 2014 presented herein as comparative information.

4. LOANS AND OTHERS

Loans and others as of September 30 and March 31, 2014 include claims to borrowers in bankruptcy and past due loans as follows. The amounts below are based on the non-consolidated financial statements of the Company:

	Millions of Yen		Thousands of
	September 30, 2014	March 31, 2014	U.S. Dollars September 30, 2014
Claims to borrowers in bankruptcy (Note a)	¥ 259	¥ 1,090	\$ 2,372
Past due loans (Note b)	3,037	4,933	27,752
Delinquent loans contractually past due three months or more (Note c)	-	-	-
Restructured loans (Note d)	11	16	107

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

5. SECURITIES, INVESTMENT SECURITIES AND INVESTMENTS IN VENTURE BUSINESSES

The amounts of securities, investment securities and investments in venture businesses including carrying amounts on the accompanying interim consolidated balance sheet do not change significantly compared to those as of March 31, 2014.

6. EQUITY

Dividends

The following dividends were paid during the six-month periods ended September 30, 2014 and 2013:

Six-Month Period Ended September 30, 2014								
Resolution	Class of Shares	Total Dividends (Millions of Yen)	Total Dividends (Thousands of U.S. Dollars)	Dividends per Share (Yen)	Dividends per Share (U.S. Dollars)	Record Date	Effective Date	Source of Dividends
Annual shareholders' meeting held on June 20, 2014	Common stock	¥ 2,823	\$ 25,792	¥54,960.00	\$ 502.14	March 31, 2014	June 23, 2014	Retained earnings
Six-Month Period Ended September 30, 2013								
Resolution	Class of Shares	Total Dividends (Millions of Yen)		Dividends per Share (Yen)		Record Date	Effective Date	Source of Dividends
Annual shareholders' meeting held on June 21, 2013	Common stock	¥ 3,563		¥68,572.00		March 31, 2013	June 24, 2013	Retained earnings

7. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

The amounts of financial instruments including carrying amounts on the accompanying interim consolidated balance sheet do not change significantly compared to those as of March 31, 2014.

8. DERIVATIVES

The amounts of derivatives including contract amounts as of September 30, 2014 do not change significantly compared to those as of March 31, 2014.

9. COMMITMENTS AND CONTINGENCIES

Contingent liabilities as of September 30, 2014 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees in the ordinary course of business	¥ 5,081	\$ 46,427

10. SEGMENT INFORMATION

Information about revenue and profit by reportable segment

The following tables represent information about revenue and profit by reportable segment for the six-month periods ended September 30, 2014 and 2013.

	Millions of Yen					
	Six-Month Period Ended September 30, 2014					
	Reportable Segment					
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	¥ 84,661	¥ 3,799	¥ 1,209	¥ 2,547	¥ 108,663	¥ 200,882
Intersegment revenue or transfers	-	-	-	13,870	187	14,057
Total	¥ 84,661	¥ 3,799	¥ 1,209	¥ 16,418	¥ 108,850	¥ 214,940
Segment profit	¥ 6,165	¥ 2,394	¥ 644	¥ 1,273	¥ 3,585	¥ 14,062

	Thousands of U.S. Dollars					
	Six-Month Period Ended September 30, 2014					
	Reportable Segment					
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	\$ 773,521	\$ 34,716	\$ 11,053	\$ 23,276	\$ 992,812	\$1,835,380
Intersegment revenue or transfers	-	-	-	126,731	1,710	128,441
Total	\$ 773,521	\$ 34,716	\$ 11,053	\$ 150,008	\$ 994,522	\$1,963,822
Segment profit	\$ 56,327	\$ 21,876	\$ 5,886	\$ 11,636	\$ 32,755	\$ 128,482

	Millions of Yen					
	Six-Month Period Ended September 30, 2013					
	Reportable Segment					
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	¥ 85,723	¥ 3,406	¥ 1,331	¥ 2,539	¥ 109,401	¥ 202,403
Intersegment revenue or transfers	-	-	-	12,987	114	13,101
Total	¥ 85,723	¥ 3,406	¥ 1,331	¥ 15,527	¥ 109,515	¥ 215,505
Segment profit	¥ 6,825	¥ 1,309	¥ 941	¥ 1,484	¥ 2,202	¥ 12,763

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

	Millions of Yen		Thousands of U.S. Dollars
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2014	2013	2014
Segment profit:			
Reportable segments total	¥ 14,062	¥ 12,763	\$ 128,482
Corporate expenses (Note)	(4,244)	(3,723)	(38,779)
Operating income in the interim consolidated statements of income	¥ 9,817	¥ 9,039	\$ 89,702

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

Significant loss on impairment of long-lived assets by reportable segment

For the six-month periods ended September 30, 2014 and 2013, there is no applicable information to disclose.

Significant change in the amount of goodwill by reportable segment

For the six-month periods ended September 30, 2014 and 2013, there is no applicable information to disclose.

Significant gain on bargain purchase by reportable segment

For the six-month periods ended September 30, 2014 and 2013, there is no applicable information to disclose.

11. SUBSEQUENT EVENTS

There are no significant subsequent events to disclose.

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