

Interim Consolidated Financial Statements (Unaudited)

For the Six Months Ended September 30, 2016

<Under Japanese GAAP>

NTT FINANCE CORPORATION

This document has been translated and reclassified from a part of the Japanese quarterly securities report for reference purposes only. In the event of any discrepancy between this document and the Japanese original securities report, the original shall prevail. The Company assumes no responsibility for this document or for direct, indirect or any other forms of damages arising from the document.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Balance Sheets
September 30, 2016 as compared with March 31, 2016—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, 2016	March 31, 2016	September 30, 2016		September 30, 2016	March 31, 2016	September 30, 2016
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents	¥ 489,120	¥ 530,173	\$ 4,837,029	Short-term bank loans	¥ 97,152	¥ 43,283	\$ 960,768
Lease receivables and investments in leases	443,273	437,198	4,383,637	Current portion of long-term borrowings	27,900	45,233	275,914
Trade accounts receivable:				Current portion of bonds	94,511	61,124	934,643
Installment sales	80,275	72,770	793,859	Trade notes and accounts payable	15,753	20,702	155,787
Loans (Note 4)	970,613	900,854	9,598,627	Accounts payable - other	435,465	434,456	4,306,421
Other loans (Note 4)	43,319	55,561	428,394	Accrued income taxes	3,227	1,957	31,921
Rents	21,242	20,875	210,070	Unearned profit on installment sales	2,505	2,352	24,780
Credit cards	48,596	48,942	480,582	Deposits received	106,479	145,778	1,053,003
Billing	125,219	128,425	1,238,330	Deposits received from shareholders, directors or employees	783,582	817,546	7,749,032
Allowance for doubtful receivables	(22,615)	(23,783)	(223,649)	Asset retirement obligations	14	226	141
Investments in venture businesses	1,862	2,044	18,415	Other	14,880	17,006	147,157
Securities	4,435	5,811	43,863				
Other	39,890	40,619	394,491	Total current liabilities	1,581,473	1,589,669	15,639,573
Total current assets	2,245,233	2,219,493	22,203,652	LONG-TERM LIABILITIES:			
PROPERTY AND EQUIPMENT, NET:				Bonds	183,605	162,658	1,815,718
Leased assets	30,838	32,591	304,965	Long-term borrowings	469,219	463,109	4,640,228
Assets held for own use	4,399	4,333	43,503	Defined benefit liability	25,071	24,367	247,941
Total property and equipment, net	35,237	36,925	348,469	Accrued directors' retirement benefits	37	46	368
INTANGIBLE ASSETS—Assets held for own use	2,440	3,240	24,139	Asset retirement obligations	2,175	2,170	21,518
				Other	11,793	10,700	116,625
INVESTMENTS AND OTHER ASSETS:				Total long-term liabilities	691,903	663,052	6,842,401
Investment securities	90,697	86,831	896,924	Total liabilities	2,273,377	2,252,721	22,481,974
Other (Note 4)	20,588	24,269	203,609	NET ASSETS:			
Allowance for doubtful receivables	(3,414)	(3,369)	(33,769)	Shareholders' equity (Note 7):			
Total investments and other assets	107,871	107,732	1,066,764	Common stock—authorized, 80,000 shares; issued, 51,960 shares as of September 30 and March 31, 2016	16,770	16,770	165,852
				Capital surplus	15,950	15,950	157,738
				Retained earnings	86,783	83,292	858,227
				Treasury stock; 595 shares as of September 30 and March 31, 2016	(1,126)	(1,126)	(11,145)
				Total shareholders' equity	118,378	114,887	1,170,672
				Accumulated other comprehensive income/(loss):			
				Unrealized gain on available-for-sale securities	1,160	1,141	11,481
				Foreign currency translation adjustments	(442)	498	(4,374)
				Remeasurements of defined benefit plans	(2,505)	(2,637)	(24,774)
				Total accumulated other comprehensive income/(loss)	(1,786)	(996)	(17,667)
				Non-controlling interests	813	778	8,046
				Total net assets	117,405	114,669	1,161,051
TOTAL ASSETS	¥ 2,390,782	¥ 2,367,390	\$ 23,643,025	TOTAL LIABILITIES AND NET ASSETS	¥ 2,390,782	¥ 2,367,390	\$ 23,643,025

See notes to interim consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Six-Month Periods Ended September 30, 2016 and 2015—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2016	2015	2016
REVENUE	¥ 196,516	¥ 192,025	\$ 1,943,400
COST OF SALES	<u>120,255</u>	<u>113,450</u>	<u>1,189,239</u>
Gross profit	<u>76,260</u>	<u>78,574</u>	<u>754,161</u>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>64,996</u>	<u>69,116</u>	<u>642,767</u>
Operating income	<u>11,264</u>	<u>9,458</u>	<u>111,394</u>
OTHER INCOME:			
Interest income	0	0	1
Dividend income	22	23	222
Gain on bad debts recovered	217	190	2,152
Equity in earnings of affiliates	61	82	611
Other	<u>19</u>	<u>23</u>	<u>188</u>
Total other income	321	319	3,176
OTHER EXPENSES:			
Interest expense	88	115	877
Foreign exchange loss	853	51	8,435
Bond issuance costs	177	-	1,753
Other	<u>82</u>	<u>131</u>	<u>819</u>
Total other expenses	<u>1,201</u>	<u>298</u>	<u>11,885</u>
EXTRAORDINARY LOSSES:			
Head office transfer cost	709	-	7,014
Loss on valuation of investment securities	<u>-</u>	<u>3,491</u>	<u>-</u>
Total extraordinary losses	709	3,491	7,014
PROFIT BEFORE TAXES	<u>9,674</u>	<u>5,987</u>	<u>95,670</u>
INCOME TAXES	3,034	3,278	30,007
PROFIT	<u>6,639</u>	<u>2,709</u>	<u>65,662</u>
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	34	40	343
PROFIT ATTRIBUTABLE TO OWNERS OF PARENT	<u>¥ 6,605</u>	<u>¥ 2,669</u>	<u>\$ 65,318</u>

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Six-Month Periods Ended September 30, 2016 and 2015—Unaudited

	Yen		U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2016	2015	2016
PER SHARE OF COMMON STOCK:			
Weighted average number of shares outstanding	51,365	51,365	51,365
Basic earnings per share	¥ 128,590.25	¥ 51,962.37	\$ 1,271.65

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, 2016 and 2015—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2016	2015	2016
PROFIT	¥ 6,639	¥ 2,709	\$ 65,662
OTHER COMPREHENSIVE INCOME/(LOSS):			
Net unrealized gain/(loss) on available-for-sale securities	19	(394)	188
Foreign currency translation adjustments	(629)	(10)	(6,225)
Remeasurements of defined benefit plans	132	(33)	1,311
Share of other comprehensive income of affiliates accounted for using equity method	(311)	40	(3,083)
Total other comprehensive income/(loss)	(789)	(397)	(7,808)
COMPREHENSIVE INCOME	¥ 5,850	¥ 2,311	\$ 57,854
Comprehensive income attributable to:			
Owners of the parent	¥ 5,815	¥ 2,271	\$ 57,510
Non-controlling interests	34	40	343

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, 2016 and 2015—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2016	2015	2016
OPERATING ACTIVITIES:			
Profit before taxes	¥ 9,674	¥ 5,987	\$ 95,670
Adjustments for:			
Depreciation of leased assets and assets held for own use	2,641	2,473	26,119
Loss on retirement of leased assets and assets held for own use	283	212	2,803
Decrease in allowance for investment loss	-	(1)	-
(Increase)/decrease in net defined benefit asset	(39)	14	(387)
Increase in net defined benefit liability	897	401	8,878
Decrease in accrued directors' retirement benefits	(9)	(7)	(92)
Decrease in allowance for doubtful receivables	(1,122)	(1,266)	(11,103)
Interest and dividend income	(22)	(23)	(223)
Financing costs and interest expense	2,831	2,852	28,004
Foreign exchange (gain)/loss	(26,631)	51	(263,362)
Equity in earnings of affiliates	(61)	(82)	(611)
Loss on valuation of investment securities	5	3,492	57
Bond issuance costs	177	-	1,753
Increase in trade accounts receivable - installment sales	(7,504)	(4,541)	(74,218)
Increase in lease receivables and investments in leases	(6,296)	(5,529)	(62,264)
Increase in trade accounts receivable - loans	(77,857)	(176,498)	(769,951)
Decrease in trade accounts receivable - other loans	11,671	2,530	115,418
Increase in trade accounts receivable - rents	(366)	(324)	(3,624)
Decrease/(increase) in trade accounts receivable - credit cards	345	(117)	3,417
Decrease in trade accounts receivable - billing	3,205	1,480	31,700
Decrease in investments in venture businesses	29	39	293
Increase in other securities to earn financial income for operating purpose	(2,337)	(7,799)	(23,118)
Purchases of leased assets	(555)	(278)	(5,496)
Decrease in trade notes and accounts payable	(4,949)	(6,759)	(48,944)
Increase in accounts payable - other	1,008	7,307	9,974
Other—net	4,345	(1,388)	42,975
Subtotal	(90,637)	(177,774)	(896,332)
Interest and dividend income received	57	66	569
Interest expense paid	(2,506)	(2,687)	(24,785)
Income taxes paid	(1,897)	(3,125)	(18,766)
Net cash used in operating activities	¥ (94,983)	¥ (183,521)	\$ (939,315)

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows

Six-Month Periods Ended September 30, 2016 and 2015—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2016	2015	2016
Net cash used in operating activities	¥ (94,983)	¥ (183,521)	\$ (939,315)
INVESTING ACTIVITIES:			
Payments for purchases of investments in affiliates	-	(18)	-
Payments for purchases of assets held for own use	(911)	(775)	(9,012)
Payments for purchases of investments in capital	-	(1,500)	-
Proceeds from redemption of investments in capital	3,187	1,523	31,523
Other—net	(162)	(265)	(1,602)
Net cash provided by/(used in) investing activities	2,114	(1,035)	20,908
FINANCING ACTIVITIES:			
Increase in short-term bank loans	56,204	1,569	555,820
Increase in commercial papers	-	37,997	-
Increase in long-term borrowings	42,498	182,777	420,275
Repayments of long-term borrowings	(24,183)	(32,290)	(239,156)
Decrease in payables associated with securitization of receivables	(2,500)	(500)	(24,723)
Proceeds from issuance of bonds	78,152	6,057	772,865
Redemption of bonds	(21,046)	(25,000)	(208,137)
Cash dividends paid	(3,113)	(4,105)	(30,792)
(Decrease)/increase in deposits received	(73,922)	85,129	(731,041)
Repayments of long-term deposits received	(400)	-	(3,955)
Other—net	(3)	(15)	(32)
Net cash provided by financing activities	51,684	251,620	511,120
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	132	(1,057)	1,305
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(41,052)	66,005	(405,980)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	530,173	313,636	5,243,009
CASH AND CASH EQUIVALENTS, END OF PERIOD	¥ 489,120	¥ 379,641	\$ 4,837,029

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 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 ¥101.12 to \$1.00, the approximate rate of exchange at September 30, 2016, 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, 2016.

3. CHANGE IN ACCOUNTING POLICY

Depreciation method for property, plant and equipment

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

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

Therefore, the Company reviewed the utilization pattern of its property, plant and equipment. As a result of the

review, the Company concluded that it is appropriate to adopt the straight-line method as the depreciation method for all property, plant and equipment considering the Company's operations in both financial and settlement services in cooperation with NTT Group.

This change has had an immaterial impact on operating income and profit before taxes for the six-month period ended September 30, 2016.

4. LOANS AND OTHERS

Loans and others as of September 30 and March 31, 2016 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 U.S. Dollars
	September 30, 2016	March 31, 2016	September 30, 2016
Claims to borrowers in bankruptcy (Note a)	¥ 108	¥ 104	\$ 1,073
Past due loans (Note b)	1,017	1,093	10,062
Delinquent loans contractually past due three months or more (Note c)	-	-	-
Restructured loans (Note d)	19	20	192

- 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. ADDITIONAL INFORMATION

Application of Implementation Guidance on Recoverability of Deferred Tax Assets

The Company has applied the Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan ("ASBJ") Guidance No. 26, issued on March 28, 2016) from the first quarter of the year ending March 31, 2017.

6. 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, 2016.

7. EQUITY

Dividends

The following dividends are paid during the six-month periods ended September 30, 2016 and 2015:

Six-Month Period Ended September 30, 2016								
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 17, 2016	Common stock	¥ 3,113	\$ 30,792	¥60,620.00	\$ 599.48	March 31, 2016	June 20, 2016	Retained earnings

Six-Month Period Ended September 30, 2015								
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 19, 2015	Common stock	¥ 4,105		¥79,920.00		March 31, 2015	June 22, 2015	Retained earnings

8. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

The amounts of financial instruments including carrying amounts on the accompanying interim consolidated balance sheet as of September 30, 2016 do not change significantly compared to those as of March 31, 2016.

9. DERIVATIVES

The amounts of derivatives including contract amounts as of September 30, 2016 do not change significantly compared to those as of March 31, 2016.

10. COMMITMENTS AND CONTINGENCIES

Contingent liabilities as of September 30, 2016 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees in the ordinary course of business	¥ 14,040	\$ 138,854

11. 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, 2016 and 2015.

Millions of Yen						
Six-Month Period Ended September 30, 2016						
Reportable Segment						
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	¥ 93,163	¥ 4,668	¥ 1,321	¥ 2,669	¥ 94,693	¥ 196,516
Intersegment revenue or transfers	-	-	-	16,253	127	16,381
Total	¥ 93,163	¥ 4,668	¥ 1,321	¥ 18,923	¥ 94,820	¥ 212,897
Segment profit	¥ 5,524	¥ 1,936	¥ 686	¥ 1,240	¥ 6,378	¥ 15,766

Thousands of U.S. Dollars						
Six-Month Period Ended September 30, 2016						
Reportable Segment						
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	\$ 921,312	\$ 46,172	\$ 13,067	\$ 26,403	\$ 936,443	\$1,943,400
Intersegment revenue or transfers	-	-	-	160,732	1,263	161,995
Total	\$ 921,312	\$ 46,172	\$ 13,067	\$ 187,136	\$ 937,707	\$2,105,396
Segment profit	\$ 54,630	\$ 19,149	\$ 6,786	\$ 12,271	\$ 63,076	\$ 155,914

Millions of Yen						
Six-Month Period Ended September 30, 2015						
Reportable Segment						
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	¥ 87,184	¥ 4,249	¥ 1,357	¥ 2,592	¥ 96,642	¥ 192,025
Intersegment revenue or transfers	-	-	-	15,454	133	15,587
Total	¥ 87,184	¥ 4,249	¥ 1,357	¥ 18,046	¥ 96,775	¥ 207,613
Segment profit	¥ 6,166	¥ 1,625	¥ 638	¥ 1,249	¥ 4,114	¥ 13,793

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
	2016	2015	2016
Segment profit:			
Reportable segments total	¥ 15,766	¥ 13,793	\$ 155,914
Corporate expenses (Note)	(4,501)	(4,335)	(44,520)
Operating income in the interim consolidated statements of income	¥ 11,264	¥ 9,458	\$ 111,394

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

Change in depreciation method for property, plant and equipment

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

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

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

This change has had an immaterial impact on segment profit for the six-month period ended September 30, 2016.

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

For the six-month periods ended September 30, 2016 and 2015, 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, 2016 and 2015, there is no applicable information to disclose.

Significant gain on bargain purchase by reportable segment

For the six-month periods ended September 30, 2016 and 2015, there is no applicable information to disclose.

12. SUBSEQUENT EVENTS

There are no significant subsequent events to disclose.

* * * * *