

Interim Consolidated Financial Statements (Unaudited)

For the Six Months Ended September 30, 2019

<Under Japanese GAAP>

NTT FINANCE CORPORATION

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NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Balance Sheets
September 30, 2019 as compared with March 31, 2019—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, 2019	March 31, 2019	September 30, 2019		September 30, 2019	March 31, 2019	September 30, 2019
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents	¥ 356,238	¥ 134,929	\$ 3,300,946	Short-term bank loans	¥ 387,592	¥ 143,767	\$ 3,591,478
Lease receivables and investments in leases	628,024	601,519	5,819,351	Current portion of long-term borrowings	90,219	88,430	835,981
Trade accounts receivable:				Current portion of bonds	81,095	39,998	751,441
Installment sales	135,078	129,337	1,251,653	Commercial papers	639,987	263,000	5,930,198
Loans (Note 3)	2,268,152	1,759,168	21,016,978	Trade notes and accounts payable	32,323	32,978	299,517
Other loans (Note 3)	51,194	56,625	474,378	Accounts payable - other	414,674	413,941	3,842,421
Rents	25,152	24,998	233,064	Accrued income taxes	2,925	1,916	27,110
Credit cards	65,386	67,772	605,874	Unearned profit on installment sales	4,064	3,957	37,666
Billing	94,587	271,325	876,457	Deposits received	355,705	350,929	3,296,012
Allowance for doubtful receivables	(22,163)	(20,017)	(205,367)	Deposits received from shareholders, directors or employees	546,063	556,689	5,059,888
Investments in venture businesses	3,300	2,500	30,578	Provision for loss on system use agreements	513	946	4,753
Securities	11,141	9,125	103,237	Asset retirement obligations	1	4	10
Other	61,817	46,725	572,812	Other	17,215	17,826	159,524
Total current assets	3,677,909	3,084,010	34,079,965	Total current liabilities	2,572,381	1,914,386	23,836,005
PROPERTY AND EQUIPMENT, NET:				LONG-TERM LIABILITIES:			
Leased assets	23,449	30,256	217,281	Bonds	195,826	244,119	1,814,550
Assets held for own use	4,313	4,185	39,970	Long-term borrowings	918,000	940,230	8,506,309
Total property and equipment, net	27,762	34,442	257,251	Defined benefit liability	25,352	24,709	234,923
INTANGIBLE ASSETS—Assets held for own use	5,294	5,152	49,056	Asset retirement obligations	1,890	1,951	17,521
				Other	17,583	16,354	162,933
INVESTMENTS AND OTHER ASSETS:				Total long-term liabilities	1,158,654	1,227,364	10,736,238
Investment securities	119,010	119,410	1,102,768	Total liabilities	3,731,036	3,141,751	34,572,244
Other (Note 3)	25,002	26,719	231,672	NET ASSETS:			
Allowance for doubtful receivables	(3,166)	(3,039)	(29,338)	Shareholders' equity (Note 5):			
Total investments and other assets	140,846	143,089	1,305,103	Common stock—authorized, 80,000 shares;			
				issued, 51,960 shares as of September 30 and March 31, 2019	16,770	16,770	155,401
				Capital surplus	15,950	15,950	147,799
				Retained earnings	87,468	91,938	810,498
				Treasury stock; 595 shares as of September 30 and March 31, 2019	(1,126)	(1,126)	(10,442)
				Total shareholders' equity	119,063	123,533	1,103,256
				Accumulated other comprehensive income/(loss):			
				Unrealized gain/(loss) on available-for-sale securities	2,548	2,031	23,610
				Foreign currency translation adjustments	(129)	172	(1,201)
				Remeasurements of defined benefit plans	(886)	(963)	(8,214)
				Total accumulated other comprehensive income/(loss)	1,531	1,240	14,194
				Non-controlling interests	181	169	1,682
				Total net assets	120,776	124,944	1,119,132
TOTAL ASSETS	¥ 3,851,813	¥ 3,266,695	\$ 35,691,377	TOTAL LIABILITIES AND NET ASSETS	¥ 3,851,813	¥ 3,266,695	\$ 35,691,377

See notes to interim consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Six-Month Periods Ended September 30, 2019 and 2018—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2019	2018	2019
REVENUE	¥ 227,262	¥ 214,872	\$ 2,105,846
COST OF SALES	<u>160,483</u>	<u>143,722</u>	<u>1,487,060</u>
Gross profit/(loss)	66,779	71,149	618,785
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>56,378</u>	<u>58,580</u>	<u>522,410</u>
Operating income/(loss)	<u>10,400</u>	<u>12,569</u>	<u>96,374</u>
OTHER INCOME:			
Interest income	0	0	3
Dividend income	43	55	404
Foreign exchange gain	-	660	-
Gain on bad debts recovered	283	280	2,622
Equity in earnings of affiliates	161	105	1,499
Other	9	11	89
Total other income	<u>498</u>	<u>1,113</u>	<u>4,618</u>
OTHER EXPENSES:			
Interest expense	3	35	28
Bond issuance costs	19	35	178
Foreign exchange loss	276	-	2,559
Other	76	107	711
Total other expenses	<u>375</u>	<u>178</u>	<u>3,478</u>
EXTRAORDINARY LOSSES:			
Loss on valuation of investment securities	<u>243</u>	<u>433</u>	<u>2,254</u>
Total extraordinary losses	243	433	2,254
PROFIT/(LOSS) BEFORE TAXES	<u>10,280</u>	<u>13,071</u>	<u>95,260</u>
INCOME TAXES	2,971	4,205	27,531
PROFIT/(LOSS)	<u>7,309</u>	<u>8,865</u>	<u>67,729</u>
PROFIT/(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	17	37	162
PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF PARENT	<u>¥ 7,291</u>	<u>¥ 8,828</u>	<u>\$ 67,566</u>

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Six-Month Periods Ended September 30, 2019 and 2018—Unaudited

	Yen		U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2019	2018	2019
PER SHARE OF COMMON STOCK:			
Weighted average number of shares outstanding	51,365	51,365	51,365
Basic earnings per share	¥ 141,960.23	¥ 171,883.22	\$ 1,315.42

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, 2019 and 2018—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2019	2018	2019
PROFIT/(LOSS)	¥ 7,309	¥ 8,865	\$ 67,729
OTHER COMPREHENSIVE INCOME/(LOSS):			
Unrealized gain/(loss) on available-for-sale securities	516	1,168	4,782
Foreign currency translation adjustments	(241)	479	(2,242)
Remeasurements of defined benefit plans	76	60	711
Share of other comprehensive income/(loss) of affiliates accounted for using equity method	(59)	(76)	(554)
Total other comprehensive income/(loss)	291	1,632	2,697
COMPREHENSIVE INCOME/(LOSS)	¥ 7,600	¥ 10,498	\$ 70,427
Comprehensive income/(loss) attributable to:			
Owners of parent	¥ 7,582	¥ 10,461	\$ 70,264
Non-controlling interests	17	37	163

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, 2019 and 2018—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2019	2018	2019
OPERATING ACTIVITIES:			
Profit before income taxes	¥ 10,280	¥ 13,071	\$ 95,260
Adjustments to reconcile profit before income taxes to net cash provided/(used in) by operating activities:			
Depreciation of leased assets and assets held for own use	2,218	2,011	20,557
(Gain)/loss on retirement of leased assets and assets held for own use	81	166	760
(Increase)/decrease in defined benefit asset	(60)	(31)	(558)
Increase/(decrease) in defined benefit liability	797	865	7,389
Increase/(decrease) in allowance for doubtful receivables	2,273	349	21,063
Increase/(decrease) in provision for loss on system use agreements	(433)	(622)	(4,012)
Interest and dividend income	(43)	(55)	(408)
Financing costs and interest expense	8,622	7,371	79,893
Foreign exchange (gain)/loss	(12,944)	17,606	(119,946)
Equity in (earnings)/losses of affiliates	(161)	(105)	(1,500)
(Gain)/loss on valuation of investment securities	243	433	2,255
(Gain)/loss on sales of shares of affiliates	-	1	-
Bond issuance costs	19	35	179
(Increase)/decrease in leases receivable and investments in leases	(26,565)	(24,337)	(246,159)
(Increase)/decrease in trade accounts receivable - installment sales	(5,741)	(14,608)	(53,199)
(Increase)/decrease in trade accounts receivable - loans	(513,205)	(134,076)	(4,755,425)
(Increase)/decrease in trade accounts receivable - other loans	5,296	(940)	49,079
(Increase)/decrease in trade accounts receivable - rents	(162)	(312)	(1,508)
(Increase)/decrease in trade accounts receivable - credit cards	2,386	(16,388)	22,115
(Increase)/decrease in trade accounts receivable - billing	176,737	(1,343)	1,637,675
(Increase)/decrease in investments in venture businesses	(575)	51	(5,337)
(Increase)/decrease in other securities to earn financial income for operating purpose	(1,204)	4,470	(11,164)
Purchases of leased assets	(257)	(68)	(2,389)
Increase/(decrease) in trade notes and accounts payable	(654)	(1,888)	(6,069)
Increase/(decrease) in accounts payable - other	815	3,272	7,557
Increase/(decrease) in deposits received - billing	68,090	(7,375)	630,932
Other—net	(6,522)	(23,071)	(60,436)
Subtotal	(290,671)	(175,520)	(2,693,395)
Interest and dividend income received	78	55	727
Interest expense paid	(9,028)	(6,942)	(83,658)
Income taxes refund/(paid)	(1,941)	(6,238)	(17,992)
Net cash provided by/(used in) operating activities	¥ (301,562)	¥ (188,645)	\$ (2,794,318)

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows

Six-Month Periods Ended September 30, 2019 and 2018—Unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Six-Month Period Ended September 30		Six-Month Period Ended September 30
	2019	2018	2019
INVESTING ACTIVITIES:			
Payments for purchases of assets held for own use	¥ (1,510)	¥ (2,880)	\$ (13,999)
Payments for investments in capital	-	(3,000)	-
Purchase of shares of subsidiaries and associates	(250)	(6)	(2,317)
Proceeds from redemption of investments in capital	1,540	-	14,271
Proceeds from sales of shares of subsidiaries and associates	-	3	-
Other—net	(54)	(153)	(502)
	(274)	(6,036)	(2,547)
FINANCING ACTIVITIES:			
Increase/(decrease) in short-term bank loans	246,265	(6,530)	2,281,925
Increase/(decrease) in commercial papers	376,968	(39,000)	3,493,036
Increase in long-term borrowings	18,557	134,000	171,955
Repayments of long-term borrowings	(27,951)	(40,796)	(259,007)
Proceeds from issuance of bonds	15,269	15,538	141,489
Redemption of bonds	(20,000)	(20,000)	(185,322)
Cash dividends paid	(11,761)	(12,813)	(108,986)
Increase/(decrease) in deposits received	(74,126)	159,969	(686,864)
Other—net	(25)	(4)	(240)
	523,194	190,362	4,847,986
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(68)	259	(637)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	221,288	(4,060)	2,050,484
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	134,929	148,805	1,250,273
INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARY	20	32	189
CASH AND CASH EQUIVALENTS, END OF PERIOD	¥ 356,238	¥ 144,777	\$ 3,300,946

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 interim 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 interim 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 ¥107.92 to \$1.00, the approximate rate of exchange at September 30, 2019, 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, 2019.

From the first quarter of the year ending March 31, 2020, NTT Finance UK Limited and NTT Finance Netherlands B.V. were included in the scope of consolidation due to the establishment and the increased materiality, respectively.

From the first quarter of the year ending March 31, 2020, NTT Global Data Centers Corporation was included in the scope of the equity method due to the acquisition of shares.

3. LOANS AND OTHERS

Loans and others as of September 30 and March 31, 2019 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, 2019	March 31, 2019	U.S. Dollars September 30, 2019
Claims to borrowers in bankruptcy (Note a)	¥ 28	¥ 28	\$ 263
Past due loans (Note b)	1,014	1,023	9,399
Delinquent loans contractually past due three months or more (Note c)	-	-	-
Restructured loans (Note d)	30	33	284

- Notes:
- Claims to borrowers in bankruptcy represent non-accrual loans which are defined in Article 96, Paragraph (1) (iii) of the Enforcement Order 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.

4. 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, 2019.

5. EQUITY

Dividends

The following dividends are paid during the six-month periods ended September 30, 2019 and 2018:

Six-Month Period Ended September 30, 2019								
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 13, 2019	Common stock	¥ 11,761	\$ 108,986	¥228,985.00	\$ 2,121.80	March 31, 2019	June 14, 2019	Retained earnings

Six-Month Period Ended September 30, 2018								
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 22, 2018	Common stock	¥ 12,813		¥249,454.00		March 31, 2018	June 25, 2018	Retained earnings

6. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

The amounts of financial instruments including carrying amounts on the accompanying interim consolidated balance sheet as of September 30, 2019 do not change significantly compared to those as of March 31, 2019.

7. DERIVATIVES

The amounts of derivatives including contract amounts as of September 30, 2019 do not change significantly compared to those as of March 31, 2019.

8. COMMITMENTS AND CONTINGENCIES

Contingent liabilities as of September 30, 2019 are as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Guarantees in the ordinary course of business	¥ 19,373	\$ 179,514

9. SEGMENT INFORMATION

Information about revenue and profit by reportable segment

With the development of NTT Group's global operations, the Company has proactively been strengthening its global operations to enhance the support system for NTT Group, e.g. by establishing a new business office in the U.S. and new subsidiaries in Europe.

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 six-month period ended September 30, 2018, is also disclosed using the new business segments.

The following tables represent information about revenue and profit by reportable segment for the six-month periods ended September 30, 2019 and 2018.

	Millions of Yen					
	Six-Month Period Ended September 30, 2019					
	Reportable Segment					
	Leasing	International	Finance	Credit Card	Billing	Total
Revenue from external customers	¥ 125,138	¥ 12,008	¥ 6,809	¥ 2,684	¥ 80,621	¥ 227,262
Intersegment revenue or transfers	-	-	-	19,043	113	19,156
Total	¥ 125,138	¥ 12,008	¥ 6,809	¥ 21,727	¥ 80,735	¥ 246,419
Segment profit	¥ 6,758	¥ 1,909	¥ 986	¥ 1,804	¥ 3,157	¥ 14,617

	Thousands of U.S. Dollars					
	Six-Month Period Ended September 30, 2019					
	Reportable Segment					
	Leasing	International	Finance	Credit Card	Billing	Total
Revenue from external customers	\$1,159,548	\$ 111,268	\$ 63,101	\$ 24,875	\$ 747,053	\$2,105,846
Intersegment revenue or transfers	-	-	-	176,456	1,050	177,506
Total	\$1,159,548	\$ 111,268	\$ 63,101	\$ 201,331	\$ 748,103	\$2,283,352
Segment profit	\$ 62,625	\$ 17,691	\$ 9,143	\$ 16,725	\$ 29,258	\$ 135,444

	Millions of Yen					
	Six-Month Period Ended September 30, 2018					
	Reportable Segment					
	Leasing	International	Finance	Credit Card	Billing	Total
Revenue from external customers	¥ 109,818	¥ 10,786	¥ 5,377	¥ 2,702	¥ 86,186	¥ 214,872
Intersegment revenue or transfers	-	-	-	17,546	117	17,663
Total	¥ 109,818	¥ 10,786	¥ 5,377	¥ 20,248	¥ 86,303	¥ 232,535
Segment profit	¥ 6,601	¥ 2,175	¥ 902	¥ 1,827	¥ 5,168	¥ 16,675

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
	2019	2018	2019
Segment profit:			
Reportable segments total	¥ 14,617	¥ 16,675	\$ 135,444
Corporate expenses (Note)	(4,216)	(4,105)	(39,069)
Operating income in the interim consolidated statements of income	¥ 10,400	¥ 12,569	\$ 96,374

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, 2019 and 2018, 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, 2019 and 2018, there is no applicable information to disclose.

Significant gain on bargain purchase by reportable segment

For the six-month periods ended September 30, 2019 and 2018, there is no applicable information to disclose.

10. SUBSEQUENT EVENTS

There are no significant subsequent events to disclose.

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