Consolidated Financial Statements

NTT FINANCE CORPORATION and Consolidated Subsidiaries

For the Years ended March 31,
2014 and 2013
Together with Independent Auditors' Report

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2014 and 2013

ASSETS	Millions of Yen 2014	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2014
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	¥ 373,295	¥ 184,988	$ 3,627,040
Leases receivable and investments in leases (Notes 12, 13, and 15)	376,242	357,404	3,655,674
Trade accounts receivable (Note 13):			
Installment sales (Note 15)	38,364	21,082	372,755
Loans (Notes 3 and 19)	948,401	658,254	9,214,933
Rents (Note 15)	18,308	18,246	177,885
Credit cards	41,195	39,995	400,262
Billing (Note 19)	153,835	325,728	1,494,704
Others (Note 3)	47,288	52,381	459,463
Allowance for doubtful receivables	(30,687)	(26,275)	(298,163)
Investments in venture businesses (Notes 4 and 13)	1,594	1,155	15,487
Securities (Notes 4 and 13)	4,008	2,381	38,942
Deferred tax assets (Note 11)	7,780	4,399	75,592
Other (Note 19)	44,303	43,821	430,460
Total current assets	2,023,928	1,683,564	19,665,060
PROPERTY AND EQUIPMENT, NET (Note 5):			
Leased assets (Note 15)	8,180	8,842	79,479
Assets held for own use (Note 6)	5,256	4,640	51,068
Total property and equipment, net	13,436	13,482	130,547
INTANGIBLE ASSETS—Assets held for own use (Note 6)	5,582	6,539	54,236
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4, 7 and 13)	58,518	47,405	568,577
Deferred tax assets (Note 11)	5,010	10,389	48,678
Other (Notes 3, 6, 7 and 13)	20,112	19,033	195,413
Allowance for doubtful receivables (Note 13)	(6,003)	(7,439)	(58,326)
Allowance for investment loss	(93)	(81)	(903)
Total investments and other assets	77,544	69,308	753,439
TOTAL ASSETS	¥ 2,120,491	¥ 1,772,894	$ 20,603,293

LIABILITIES AND NET ASSETS	Millions of Yen 2014	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2014
CURRENT LIABILITIES:			
Short-term borrowings (Notes 8 and 13)	¥ 145,126	¥ 50,712	$ 1,410,085
Current portion of long-term debt (Notes 8, 13 and 15)	87,501	93,482	850,184
Lease obligations (Notes 8, 12 and 13)	849	1,185	8,249
Trade notes and accounts payable (Note 13)	22,874	14,876	222,250
Accounts payable - other (Notes 13 and 19)	423,178	414,757	4,111,717
Accrued income taxes	1,161	8,961	11,280
Deposits received (Notes 13 and 19)	267,749	225,391	2,601,525
Deposits received from shareholders, directors or employees (Notes 13 and 19)	447,387	269,924	4,346,939
Other (Notes 8, 15 and 19)	22,783	29,433	221,366
Total current liabilities	1,418,612	1,108,726	13,783,637
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8, 13 and 15)	338,433	311,029	3,288,311
Lease obligations (Notes 8 and 13)	41	46	398
Accrued retirement benefits (Note 9)	-	7,108	-
Accrued directors' retirement benefits	53	58	514
Net defined benefit liability	8,322	-	80,858
Long-term deposits received from shareholders, directors or employees (Note 19)	240,000	240,400	2,331,908
Reserve for loss on business of affiliates	129	524	1,253
Asset retirement obligations	2,239	878	21,754
Other (Note 15)	7,171	5,348	69,675
Total long-term liabilities	596,391	565,394	5,794,704
Total liabilities	2,015,004	1,674,120	19,578,352
NET ASSETS:			
Shareholders' equity (Note 10):			
Common stock—authorized, 80,000 shares; issued, 51,960 shares in 2014 and 2013	16,770	16,770	162,942
Capital surplus	15,950	15,950	154,974
Retained earnings	71,885	65,093	698,455
Treasury stock; 595 shares in 2014 and none in 2013	(1,126)	-	(10,940)
Total shareholders' equity	103,480	97,814	1,005,441
Accumulated other comprehensive income/(loss):			
Unrealized gain on available-for-sale securities	1,177	799	11,436
Foreign currency translation adjustments	57	(476)	553
Remeasurements of defined benefit plans	108	-	1,049
Total accumulated other comprehensive income	1,343	323	13,048
Minority interests	664	635	6,451
Total net assets	105,487	98,773	1,024,941
TOTAL LIABILITIES AND NET ASSETS	¥ 2,120,491	¥ 1,772,894	$ 20,603,293

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
REVENUE:			
Lease	¥ 169,828	¥ 181,578	$ 1,650,097
Loan (Note 19)	6,934	5,979	67,372
Investment	3,778	2,296	36,708
Credit card	5,057	6,214	49,135
Billing (Note 19)	216,022	176,706	2,098,931
TOTAL REVENUE	401,622	372,776	3,902,273
COSTS:			
Lease	149,900	161,018	1,456,471
Loan	3,208	2,819	31,169
Investment	574	868	5,577
Credit card	24,931	19,089	242,236
Billing	54,972	56,048	534,123
TOTAL COSTS	233,586	239,844	2,269,588
Gross profit	168,035	132,931	1,632,675
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	149,767	113,527	1,455,178
Operating income	18,267	19,404	177,487
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 19)	26	15	252
Interest expense (Note 19)	(240)	(376)	(2,331)
Bond issuance costs	(153)	(142)	(1,486)
Equity in earnings of affiliates	111	80	1,078
Foreign exchange gain	106	103	1,029
Gain on bad debts recovered	184	183	1,787
Loss on retirement of assets held for own use	(86)	(88)	(835)
Compensation for office transfer	-	125	-
System migration expense	-	(1,217)	-
Loss on reversal of foreign currency translation adjustments due to liquidation of foreign subsidiary	-	(247)	-
Other—net	46	(176)	446
Other expenses—net	(4)	(1,741)	(38)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	18,262	17,663	177,438
INCOME TAXES (Note 11):			
Current	6,148	10,562	59,735
Deferred	1,730	(7,394)	16,809
Total income taxes	¥ 7,878	¥ 3,167	$ 76,544

(Continued)

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
INCOME BEFORE MINORITY INTERESTS	¥ 10,383	¥ 14,495	$ 100,884
MINORITY INTERESTS IN INCOME	28	6	272
NET INCOME	¥ 10,355	¥ 14,488	$ 100,612

	Yen		U.S. Dollars (Note 1)
	2014	2013	2014
PER SHARE OF COMMON STOCK:			
Weighted average number of shares outstanding	51,657	51,960	
Basic net income	¥ 200,466.12	¥ 278,844.39	$ 1,947.78
Cash dividends applicable to the year (Note 20)	54,960.00	68,572.00	534.00

See notes to consolidated financial statements.

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NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
INCOME BEFORE MINORITY INTERESTS	¥ 10,383	¥ 14,495	$ 100,884
OTHER COMPREHENSIVE INCOME (Note 17):			
Net unrealized gain on available-for-sale securities	377	562	3,663
Foreign currency translation adjustments	302	548	2,934
Share of other comprehensive income of affiliates accounted for using equity method	231	110	2,244
Total other comprehensive income	911	1,221	8,851
COMPREHENSIVE INCOME	¥ 11,295	¥ 15,716	$ 109,745
Comprehensive income attributable to:			
Owners of parent	¥ 11,266	¥ 15,709	$ 109,463
Minority interests	28	6	272

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2014 and 2013

		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 on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income/(Loss)	Minority Interests	Total Net Assets
BALANCE, APRIL 1, 2012	51,960	¥ 16,770	¥ 15,950	¥ 55,149	¥ -	¥ 87,870	¥ 237	¥ (1,135)	¥ -	¥ (897)	¥ 629	¥ 87,602
Cash dividends, ¥87,472.00 per share				(4,545)		(4,545)						(4,545)
Net income				14,488		14,488						14,488
Net changes of items other than shareholders' equity							562	658	-	1,221	6	1,227
BALANCE, MARCH 31, 2013	51,960	16,770	15,950	65,093	-	97,814	799	(476)	-	323	635	98,773
Cash dividends, ¥68,572.00 per share				(3,563)		(3,563)						(3,563)
Net income				10,355		10,355						10,355
Purchase of treasury stock	(595)				(1,126)	(1,126)						(1,126)
Net changes of items other than shareholders' equity							377	533	108	1,019	28	1,047
BALANCE, MARCH 31, 2014	51,365	¥ 16,770	¥ 15,950	¥ 71,885	¥ (1,126)	¥ 103,480	¥ 1,177	¥ 57	¥ 108	¥ 1,343	¥ 664	¥ 105,487

	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 on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income/(Loss)	Minority Interests	Total Net Assets
BALANCE, MARCH 31, 2013	$ 162,942	$ 154,974	$ 632,462	$ -	$ 950,388	$ 7,763	$ (4,624)	$ -	$ 3,138	$ 6,169	$ 959,706
Cash dividends, $666.26 per share			(34,619)		(34,619)						(34,619)
Net income			100,612		100,612						100,612
Purchase of treasury stock				(10,940)	(10,940)						(10,940)
Net changes of items other than shareholders' equity						3,663	5,178	1,049	9,900	272	10,172
BALANCE, MARCH 31, 2014	$ 162,942	$ 154,974	$ 698,455	$ (10,940)	$ 1,005,441	$ 11,436	$ 553	$ 1,049	$ 13,048	$ 6,451	$ 1,024,941

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 18,262	¥ 17,663	$ 177,438
Adjustments for:			
Depreciation of leased assets and assets held for own use	3,968	3,307	38,554
Loss on retirement of leased assets and assets held for own use	288	286	2,798
Increase/(decrease) in allowance for investment loss	12	(506)	116
Increase in accrued retirement benefits	-	2,105	-
Increase in net defined benefit liability	1,381	-	13,418
Increase in allowance for doubtful receivables	2,975	6,288	28,905
Decrease in reserve for loss on business of affiliates	(394)	(345)	(3,828)
Interest and dividend income	(26)	(15)	(252)
Financing costs and interest expense	4,917	5,253	47,774
Foreign exchange gain	(106)	(103)	(1,029)
Equity in earnings of affiliates	(111)	(80)	(1,078)
Bond issuance costs	153	142	1,486
System migration expense	-	1,217	-
Loss on reversal of foreign currency translation adjustments due to liquidation of foreign subsidiary	-	247	-
(Increase)/decrease in leases receivable and investments in leases	(18,674)	32,078	(181,441)
Increase in trade accounts receivable	(126,332)	(522,492)	(1,227,477)
(Increase)/ decrease in investments in venture businesses	(324)	394	(3,148)
Increase in other securities to earn financial income for operating purpose	(11,952)	(4,315)	(116,129)
Purchases of leased assets	(433)	(440)	(4,207)
Increase in trade notes and accounts payable	7,997	2,337	77,701
Increase in accounts payable - other	8,420	362,089	81,811
Other—net	65,054	40,386	632,083
Subtotal	(44,922)	(54,501)	(436,474)
Interest and dividend income received	52	35	505
Interest expense paid	(4,896)	(5,117)	(47,570)
Income taxes paid	(13,865)	(3,689)	(134,716)
Payments for system migration expense	-	(1,148)	-
Net cash used in operating activities—(Forward)	¥ (63,631)	¥ (64,421)	$ (618,256)

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NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
Net cash used in operating activities—(Forward)	¥ (63,631)	¥ (64,421)	$ (618,256)
INVESTING ACTIVITIES:			
Payments into time deposits	-	(517)	-
Proceeds from withdrawal of time deposits	517	-	5,023
Payments for purchases of investment securities	(299)	(1,199)	(2,905)
Proceeds from sales and redemption of investment securities	-	16	-
Payments for purchases of investments in affiliates	-	(9)	-
Payments for purchases of assets held for own use	(1,470)	(6,912)	(14,282)
Payments for purchases of investments in capital	(3,650)	(5,202)	(35,464)
Other—net	62	1,005	602
Net cash used in investing activities	(4,840)	(12,817)	(47,026)
FINANCING ACTIVITIES:			
Increase in short-term borrowings	93,022	9,068	903,828
Increase in long-term debt	107,375	66,513	1,043,286
Repayments of long-term debt	(92,327)	(95,287)	(897,075)
Decrease in payables associated with securitization of receivables	(1,000)	-	(9,716)
Cash dividends paid	(3,563)	(4,545)	(34,619)
Payments for purchase of treasury stock	(1,126)	-	(10,940)
Increase/(decrease) in deposits received	163,063	(24,809)	1,584,366
Proceeds from long-term deposits received	-	240,000	-
Repayments of long-term deposits received	(10,000)	(10,000)	(97,162)
Other—net	(9)	5	(87)
Net cash provided by financing activities	255,434	180,945	2,481,869
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	1,345	837	13,068
NET INCREASE IN CASH AND CASH EQUIVALENTS	188,307	104,544	1,829,644
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	184,988	80,443	1,797,396
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 373,295	¥ 184,988	$ 3,627,040

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

NTT FINANCE CORPORATION (the "Company") maintains its books of account in accordance with the provisions set forth in the Companies Act of Japan (the "Companies Act") and the Financial Instruments and Exchange Act of Japan and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The accompanying consolidated financial statements have been compiled from the consolidated financial statements that were filed with the Director of the Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Act of Japan. In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the prior year's consolidated financial statements to bring them into conformity with the current year's presentation.

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. As permitted by the regulations under the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements in yen do not necessarily agree with the sums of the individual amounts.

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, as a matter of arithmetic computation only, and has been made at the rate of ¥102.92 to $1.00, the approximate rate of exchange at March 31, 2014, 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*—**The consolidated financial statements as of March 31, 2014 include the accounts of the Company and its 13 significant subsidiaries (13 in 2013), such as NTTL Holdings, Inc. (together, the "Group").

Entities over which the Company has, directly or indirectly, a controlling financial interest are fully consolidated, and entities over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in two affiliates are accounted for by the equity method.

Investments in 91 non-consolidated subsidiaries (92 in 2013), including 70 operators under silent partnership agreements (77 in 2013) whose profit/loss and assets do not vest in the operators, are stated at cost, and no affiliate is stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material. See Note 7 for description of silent partnerships.

The fiscal year-ends of two consolidated silent partnerships are March 15 and 25, respectively. The financial statements of such partnerships as of and for the year ended their respective closing dates are used for consolidation and necessary adjustments were made to the consolidated financial statements to reflect any significant transactions between their respective fiscal year-ends and March 31. The fiscal year-end of one consolidated silent partnership is September 30. Pro forma financial statements as of March 31 are prepared in a manner that is substantially same as the fiscal year-end financial statements and used for consolidation.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. ***Cash Equivalents—***Cash equivalents are short-term investments that are readily convertible into cash and that are not exposed to significant risk of changes in value. All cash equivalents mature or become due within three months of the date of acquisition.

c. ***Securities, Investment Securities and Investments in Venture Businesses—***Securities, investment securities and investments in venture businesses are classified and accounted for, depending on management's intent, as follows: (i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost, (ii) available-for-sale securities, which are not classified as held-to-maturity debt securities, are reported 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 declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings held for own use acquired on or after April 1, 1998 (excluding facilities attached to buildings). The range of useful lives is principally from 15 to 47 years for buildings, and from 4 to 20 years for furniture and fixtures. Leased assets are depreciated using the declining-balance method except for those held by consolidated silent partnerships engaged in the aircraft leasing business, which are depreciated over the lease terms to a residual value using the straight-line method.

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. ***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.

g. ***Bond Issuance Costs—***Bond issuance costs are charged to expense as incurred.

h. ***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.

i. ***Allowance for Investment Loss—***Allowance for investment loss is provided for at an amount sufficient to cover probable losses on investments in securities, taking into account financial conditions of issuers as well as recoverability of investments.

j. ***Reserve for Loss on Business of Affiliates—***Reserve for loss on business of affiliates is provided for at an amount sufficient to cover the Company's share of reasonably estimated equity losses of affiliates to be incurred in the future, taking into account financial conditions and results of operations of affiliates.

k. ***Retirement Benefit Plans—***The Company has funded and unfunded defined benefit plans. In determining retirement benefit obligations, the straight-line 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 such gains or losses occur, commencing from the following fiscal year.

Accrued directors' retirement benefits are provided for at an estimated amount in accordance with internal policies which would be payable if all directors were to retire as of the balance sheet date.

l. ***Asset Retirement Obligations—***The 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 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 statements 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 differentials paid or received under the swap agreements are recognized and included in interest expense or income.

r. ***Per Share Information—***Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if stock acquisition rights were exercised into common stock. Diluted net income 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 net income 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 year.

s. ***Changes in accounting policies***

Accounting treatment of past service costs

Previously, the full amount of the Company's past service costs related to retirement benefit accounting was charged to income in the fiscal year they occurred. However, from the fiscal year ended March 31, 2014, the Company changed the method 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.

This change was triggered by the significantly increased number of employees of the Company due to the start of a service business for the billing and collection of communication service charges, etc. in July 2012 in addition to the realization of past service costs in the fiscal year ended March 31, 2014 accompanying the restructuring of the system that determines how regular employees for the entire NTT Group are treated and the partial transition to a defined contribution pension plan. The purpose of the change was to more appropriately present the Company's financial position and results of operations after the launch of the aforementioned service business.

This change in methods to account for past service costs has not been applied retrospectively to the consolidated financial statements in prior periods because the effects of this change cannot be exactly calculated as the average remaining years of service of the employees pertaining to a contract-type corporate pension plan, etc., exceeds 10 years, which is the statutory preservation period of books, and because the effects are insignificant even when calculated using the available data.

As a result, compared to the case where the previous method was applied, retirement benefit costs increased by ¥677 million ($6,577 thousand), and operating income and income before income taxes and minority interests both decreased by ¥677 million ($6,577 thousand).

Application of Accounting Standard for Retirement Benefits

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 "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012) (the "Guidance") were applied effective from March 31, 2014; provided, however, they were applied except for the provisions specified in the main clause of Paragraph 35 of the Accounting Standard and the main clause of Paragraph 67 of the Guidance. Under the new accounting policy, the amount of retirement benefit obligations minus plan assets is recorded as net defined benefit liability. The unrecognized actuarial gains and losses, and unrecognized past service costs were recognized in net defined benefit liability.

The application of the Accounting Standard and the Guidance by the Company is subject to the transitional treatment provided for in Paragraph 37 of the Accounting Standard. Consequently, the effects of the changes in accounting policies were recognized in remeasurements of defined benefit plans under accumulated other comprehensive income as of March 31, 2014.

As a result, as of March 31, 2014, net defined benefit liability of ¥8,322 million ($80,858 thousand) was recognized, and accumulated other comprehensive income increased by ¥108 million ($1,049 thousand). Net assets per share increased by ¥2,107.45 ($20.47).

t. ***Change in Presentation—***Previously, the Company presented the breakdowns of revenue and costs in the consolidated statements of income to correspond to the asset items in the consolidated balance sheets. However, effective from the year ended March 31, 2014, revenue and costs in the consolidated statements of income are broken down into the same components as those for segment information.

3. SECURITIES, INVESTMENT SECURITIES AND INVESTMENTS IN VENTURE BUSINESSES

Acquisition cost and fair value of available-for-sale securities as of March 31, 2014 and 2013 are as follows:

	Millions of Yen		
	2014		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	¥ 526	¥ 205	¥ 320
Debt securities	39,346	38,584	762
Others	12,766	12,140	626
Sub-total	52,639	50,929	1,710
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	3,194	3,200	(5)
Sub-total	3,194	3,200	(5)
Total	¥ 55,833	¥ 54,129	¥ 1,704

	Thousands of U.S. Dollars		
	2014		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	$ 5,110	$ 1,991	$ 3,109
Debt securities	382,296	374,893	7,403
Others	124,038	117,955	6,082
Sub-total	511,455	494,840	16,614
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	31,033	31,092	(48)
Sub-total	31,033	31,092	(48)
Total	$ 542,489	$ 525,932	$ 16,556

Unlisted equity securities of ¥6,867 million ($66,721 thousand) and investments in partnerships of ¥1,222 million ($11,873 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		
	2013		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	¥ 395	¥ 205	¥ 189
Debt securities	29,154	28,484	669
Others	9,009	8,468	541
Sub-total	38,559	37,159	1,400
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	4,766	4,953	(187)
Sub-total	4,766	4,953	(187)
Total	¥ 43,325	¥ 42,112	¥ 1,213

Unlisted equity securities of ¥6,120 million and investments in partnerships of ¥1,296 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, 2014 and 2013 are as follows:

	Millions of Yen		
	2014		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	¥ 1,015	¥ 984	¥ -

	Thousands of U.S. Dollars		
	2014		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	$ 9,862	$ 9,560	$ -

	Millions of Yen		
	2013		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	¥ 97	¥ 85	¥ 4

If the fair value of a security as of the 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 the fiscal year-end declines 30% to 50% from its acquisition cost, the necessary amount based on the recoverability is recognized as loss on impairment.

Losses on impairment of available-for-sale securities and investments in affiliates for the year ended March 31, 2014 were ¥27 million ($262 thousand) and ¥3 million ($29 thousand), respectively. Losses on impairment of available-for-sale securities and investments in affiliates for the year ended March 31, 2013 were ¥346 million and ¥0 million, respectively.

As of March 31, 2014, debt securities held by the Group to earn financial income for operating purpose are included in securities and investment securities in the amount of ¥4,008 million ($38,942 thousand) and ¥51,299 million ($498,435 thousand), respectively. As of March 31, 2013, debt securities held by the Group to earn financial income are included in securities and investment securities in the amount of ¥2,381 million and ¥40,548 million, respectively.

4. PROPERTY AND EQUIPMENT, NET

Accumulated depreciation of leased assets and assets held for own use as of March 31, 2014 and 2013 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Leased assets	¥ 4,131	¥ 4,113	$ 40,137
Assets held for own use	2,858	1,541	27,769

5. INVESTMENTS IN NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in non-consolidated subsidiaries and affiliates as of March 31, 2014 and 2013 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Investment securities	¥ 198	¥ 202	$ 1,923
Other under investments and other assets	1,132	947	10,998

Other under investments and other assets includes investments in silent partnerships. Silent partnerships are Japanese bilateral contracts governed by the Commercial Code of Japan between silent partners and an operator.

Under a silent partnership agreement, silent partners provide funds for partnership business and are entitled to be allocated all profits or losses arising from the business. However, the silent partners do not have any interest or right to the assets of the partnership business. Also, the silent partners shall have no authority, control over, or interest in the partnership business except participating in the allocated profits or losses.

The operator operates the partnership business for the benefit of the silent partners and makes distributions of profits and losses to the silent partners in accordance with the partnership agreement.

6. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debts as of March 31, 2014 and 2013 consisted of the following:

	Interest Rate (%) (Notes a, b, c and d)	Millions of Yen		Thousands of U.S. Dollars
		2014	2013	2014
Short-term debt:				
Short-term bank loans	0.210	¥ 90,127	¥ 50,712	$ 875,699
Commercial papers	0.081	54,999	-	534,385
Short-term borrowings		145,126	50,712	1,410,085
Lease obligations, current portion	-	382	628	3,711
Payables associated with securitization of receivables	0.134	10,000	11,000	97,162
Deposits received from NTT Group companies, including current portion of long-term deposits received from NTT Group companies	0.127	575,093	422,081	5,587,767
Long-term debt:				
Long-term borrowings	0.944	200,467	200,094	1,947,794
Unsecured bonds	0.15 – 1.67	184,979	164,979	1,797,308
Bonds issued under Euro Medium Term Note Program	0.88 – 1.50	40,488	39,438	393,392
Sub-total		425,935	404,511	4,138,505
Less current portion		87,501	93,482	850,184
Long-term debt		338,433	311,029	3,288,311
Lease obligations, excluding current portion	-	508	603	4,935
Long-term deposits received from NTT Group companies	0.210	240,000	240,400	2,331,908

Notes:
a. 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, 2014.
b. Interest rate for unsecured bonds represents the range of annual coupon rates on series 34th to 44th bonds, rounded down to the nearest hundredth percent.
c. Interest rate for bonds issued under Euro Medium Term Note Program represents the range of annual coupon rates on series 1st and 2nd, rounded down to the nearest hundredth percent.
d. Interest rate for finance lease obligations is not disclosed since lease obligations are recorded on the consolidated balance sheet in the amount not deducting the amount equivalent to interest that is included in the total lease payment.

The aggregate annual maturities of long-term borrowings, bonds payable, lease obligations and long-term deposits received from NTT Group companies as of March 31, 2014 are summarized as follows:

	Millions of Yen					
March 31, 2014	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
Long-term borrowings	¥ 47,503	¥ 40,783	¥ 35,485	¥ 9,734	¥ 29,907	¥ 37,053
Bonds payable	39,998	44,996	61,017	39,459	39,996	-
Lease obligations	382	157	131	51	35	131
Long-term deposits received from NTT Group companies	379,252	240,000	-	-	-	-

	Thousands of U.S. Dollars					
March 31, 2014	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
Long-term borrowings	$ 461,552	$ 396,259	$ 344,782	$ 94,578	$ 290,584	$ 360,017
Bonds payable	388,631	437,193	592,858	383,394	388,612	-
Lease obligations	3,711	1,525	1,272	495	340	1,272
Long-term deposits received from NTT Group companies	3,684,920	2,331,908	-	-	-	-

7. RETIREMENT BENEFITS

For the year ended March 31, 2014

(1) Overview of Retirement Benefit Plans

The Company has funded and unfunded defined benefit plans, i.e., NTT corporate pension fund plan, contract-type corporate pension plan and lump-sum payment plan. 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 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 of year and end of year

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Retirement benefit obligations at beginning of year	¥ 16,440	$ 159,735
Current service costs	750	7,287
Interest costs	250	2,429
Actuarial gains and losses arising during year	(243)	(2,361)
Retirement benefits paid	(495)	(4,809)
Past service costs arising during year	(706)	(6,859)
Succession due to transfer	1,843	17,907
Retirement benefit obligations at end of year	¥ 17,840	$ 173,338

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

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Plan assets at beginning of year	¥ 7,731	$ 75,116
Expected return on plan assets	183	1,778
Actuarial gains and losses arising during year	691	6,713
Contribution from employer	228	2,215
Retirement benefits paid	(333)	(3,235)
Succession due to transfer	1,021	9,920
Other	(4)	(38)
Plan assets at end of year	¥ 9,517	$ 92,469

(c) Reconciliation between retirement benefit obligations and plan assets and defined benefit liability and defined benefit asset on consolidated balance sheet

	Millions of Yen	Thousands of U.S. Dollars
	2014	2014
Retirement benefit obligations of NTT corporate pension fund (funded plan)	¥ 10,383	$ 100,884
Plan assets	(7,166)	(69,626)
	3,216	31,247
Retirement benefit obligations of contract-type corporate pension (funded plan)	2,031	19,733
Plan assets	(2,351)	(22,842)
	(319)	(3,099)
Retirement benefit obligations of lump-sum payment (unfunded plan)	5,425	52,710
Net retirement benefit obligations and plan assets	8,322	80,858
Defined benefit liability	8,322	80,858
Defined benefit asset	-	-
Net defined benefit liability	¥ 8,322	$ 80,858

(d) Profit and loss related to retirement benefits

	Millions of Yen 2014	Thousands of U.S. Dollars 2014
Current service costs	¥ 1,503	$ 14,603
Interest costs	250	2,429
Expected return on plan assets	(183)	(1,778)
Amortization of actuarial gains and losses	155	1,506
Amortization of past service costs	(29)	(281)
Retirement benefit costs on defined benefit plans	¥ 1,697	$ 16,488

(e) Breakdown of items recorded in accumulated other comprehensive income
Breakdown of items recorded in accumulated other comprehensive income, before tax, is as follows:

	Millions of Yen 2014	Thousands of U.S. Dollars 2014
Unrecognized past service costs	¥ 677	$ 6,577
Unrecognized actuarial gains and losses	(509)	(4,945)
Total	¥ 167	$ 1,622

(f) Breakdown of plan assets
Percentage to total plan assets by main category is as follows:

(i) NTT corporate pension fund

	2014
Cash and cash equivalents	0.74%
Debt securities	43.15
Equity securities	28.41
Beneficiary certificates of securities investment trust	7.41
Jointly managed money trust	8.78
General account of life insurance	11.22
Other	0.29
Total	100.00%

(ii) Contract-type corporate pension

	2014
Cash and cash equivalents	0.45%
Debt securities	40.20
Equity securities	16.36
Beneficiary certificates of securities investment trust	3.65
Jointly managed money trust	19.84
General account of life insurance	19.50
Other	-
Total	100.00%

(g) 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.

(h) Actuarial assumptions

	2014
Actuarial assumptions at end of year:	
Discount rate	1.5%
Long-term expected rate of return:	
NTT corporate pension fund	2.5%
Contract-type corporate pension	2.0%

For the year ended March 31, 2013

Accrued retirement benefits for employees as of March 31, 2013 consisted of the following:

	Millions of Yen
	2013
Projected benefit obligation	¥ (16,440)
Fair value of pension assets	7,731
Unrecognized actuarial losses	1,600
Net accrued retirement benefits	¥ (7,108)

Retirement benefit costs for the year ended March 31, 2013 are as follows:

	Millions of Yen
	2013
Service cost	¥ 1,672
Interest cost	286
Expected return on plan assets	(83)
Amortization of actuarial differences	-
Net periodic retirement benefit costs	¥ 1,875

The discount rate used by the Company is 1.5% for the year ended March 31, 2013. The rates of expected return on plan assets are from 2.0% to 2.5% for the year ended March 31, 2013. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Previously, actuarial gains or losses were fully charged to income when incurred. From the fiscal year ended March 31, 2013, the Company changed the accounting policy into the one in which actuarial gains or losses are amortized by the straight-line method over 9 to 15 years based on the average remaining years of service of the employees in the fiscal year such gains or losses occur, commencing from the following year.

8. EQUITY

Japanese companies are subject to the Companies Act. The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also permits companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of net assets. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Treasury stock acquisition rights are presented as a separate component of net assets or deducted directly from stock acquisition rights.

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in statutory tax rates of approximately 37.79% and 37.81% for the years ended March 31, 2014 and 2013, respectively. 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, 2014 and 2013 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Deferred tax assets:			
Current:			
Allowance for doubtful receivables	¥ 6,489	¥ 2,127	$ 63,048
Accrued enterprise taxes	79	749	767
Accrued bonuses	759	872	7,374
Accounts payable - other	404	213	3,925
Loss on valuation of investments in venture businesses	424	531	4,119
Unearned profit on installment sales	228	199	2,215
Effect of change in finance lease accounting	305	908	2,963
Unrealized loss on available-for-sale securities	-	29	-
Others	156	217	1,515
Sub-total	8,846	5,852	85,950
Valuation allowance	(1,021)	(1,451)	(9,920)
Total deferred tax assets - current	7,825	4,400	76,029
Noncurrent:			
Allowance for doubtful receivables	1,867	7,458	18,140
Accrued retirement benefits	2,948	2,656	28,643
Impairment loss	85	201	825
Loss on valuation of investment securities	38	36	369
Allowance for investment loss	33	89	320
Reserve for loss on business of affiliates	46	198	446
Others	2,375	1,352	23,076
Sub-total	7,394	11,993	71,842
Valuation allowance	(1,168)	(877)	(11,348)
Total deferred tax assets - noncurrent	6,226	11,115	60,493
Total deferred tax assets	14,052	15,516	136,533
Deferred tax liabilities:			
Current:			
Unrealized gain on available-for-sale securities	(45)	-	(437)
Others	-	(0)	-
Total deferred tax liabilities - current	(45)	(0)	(437)
Noncurrent:			
Unrealized gain on available-for-sale securities	(600)	(467)	(5,829)
Others	(615)	(259)	(5,975)
Total deferred tax liabilities - noncurrent	(1,216)	(726)	(11,815)
Total deferred tax liabilities	(1,261)	(726)	(12,252)
Net deferred tax assets	¥ 12,791	¥ 14,789	$ 124,280

Reconciliation between the statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2014 and 2013 is as follows:

	2014	2013
Statutory tax rate	37.79%	37.81%
Entertainment expenses permanently not deductible for income tax purposes	0.19	0.16
Tax on undistributed profits for a family corporation	0.62	0.42
Per capita inhabitant tax	0.80	0.80
Changes in valuation allowance	0.56	(15.61)
Equity in earnings of affiliates	(0.23)	(0.17)
Minority interests	(0.05)	(0.01)
Adjustment to deferred tax assets due to changes in tax rate	3.06	(0.41)
Tax credits granted for promoting employment	-	(3.96)
Others	0.37	(1.09)
Actual effective tax rate	43.14%	17.93%

The “Partial Amendment of the Income Tax Act, etc.” (Act No. 10 of 2014) was promulgated on March 31, 2014, and the special corporation tax for reconstruction will not be imposed from the year beginning on or after April 1, 2014. Consequently, the statutory tax rate to calculate deferred tax assets and liabilities will be changed from 37.81% to 35.42% for temporary differences expected to be settled or realized in the year beginning April 1, 2014.

As a result of this change, deferred tax assets, after deducting deferred tax liabilities, decreased by ¥520 million ($5,052 thousand), and income taxes - deferred for the year ended March 31, 2014 increased by the same amount.

10. LEASES

Lease transactions as lessor

Information relating to finance leases of the Group as lessor for the years ended March 31, 2014 and 2013 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Lease payments receivable	¥ 317,473	¥ 314,645	$ 3,084,657
Estimated residual value	5,346	5,351	51,943
Unearned interest income	(32,598)	(35,717)	(316,731)
Investments in leases	¥ 290,221	¥ 284,279	$ 2,819,869

The aggregate annual maturities of leases receivable and investments in leases as of March 31, 2014 and 2013 are summarized as follows:

	Millions of Yen					
March 31, 2014	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
Leases receivable	¥ 26,483	¥ 20,164	¥ 16,508	¥12,912	¥10,599	¥ 9,545
Investments in leases	92,996	73,079	56,660	41,647	26,870	26,219

	Thousands of U.S. Dollars					
March 31, 2014	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
Leases receivable	$ 257,316	$ 195,919	$ 160,396	$ 125,456	$ 102,982	$ 92,741
Investments in leases	903,575	710,056	550,524	404,654	261,076	254,751

	Millions of Yen					
March 31, 2013	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
Leases receivable	¥ 25,953	¥ 18,645	¥ 12,178	¥ 9,231	¥ 5,974	¥ 4,730
Investments in leases	97,923	74,748	55,028	38,074	24,001	24,868

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due in 1 year or less	¥ 888	¥ 1,011	$ 8,628
Due after 1 year	2,576	3,449	25,029
Total	¥ 3,465	¥ 4,460	$ 33,666

Information on sub-lease transactions for the years ended March 31, 2014 and 2013 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Leases receivable and investments in leases	¥ 799	¥ 1,108	$ 7,763
Lease obligations	824	1,156	8,006

Lease transactions as lessee

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due in 1 year or less	¥ 564	¥ 393	$ 5,479
Due after 1 year	1,850	792	17,975
Total	¥ 2,414	¥ 1,186	$ 23,455

11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group mainly engages in financial businesses, such as leasing, installment sales and loan businesses, and works to diversify its credit risk exposure by avoiding a concentration of major operating receivables on certain industries or companies. In order to cover funds necessary for these businesses, the Group raises funds through bank borrowings, issuance of corporate bonds and commercial papers, and acceptance of excess funds from NTT Group companies. The Group periodically adjusts the balance between short-term and long-term products, taking market conditions into account, and intends to further diversify its financing methods and counterparties and obtains credit facilities from various financial institutions.

In order to quickly respond to changes in financial markets, the Group aims to optimize the relationship between sources and uses of funds, taking into account market trends in various interest rates and foreign exchange rates and implementing appropriate asset liability management (“ALM”). In line with this goal, the Group has various derivative transactions only for hedging purposes and not for trading purposes.

(2) Nature and Extent of Risks Arising from Financial Instruments

Installment sales receivable, leases receivable 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 timing and 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 timing and 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, leases receivable 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, 2014 and 2013 is estimated to decrease market value of the Group’s net financial assets by ¥103 million ($1,000 thousand) and ¥85 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, 2014 and 2013 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.

	Millions of Yen		
March 31, 2014	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 373,295	¥ 373,295	¥ -
Installment sales receivable	37,221		
Less: allowance for doubtful receivables (Note a)	(434)		
	36,787	36,819	32
Leases receivable and investments in leases	376,016		
Less: allowance for doubtful receivables (Note a)	(3,742)		
	372,274	375,119	2,845
Loans receivable	948,401		
Less: allowance for doubtful receivables (Note a)	(2,453)		
	945,947	947,532	1,584
Other receivables	47,288		
Less: allowance for doubtful receivables (Note a)	(273)		
	47,015	47,109	94
Rents receivable	18,308		
Less: allowance for doubtful receivables (Note a)	(142)		
	18,165	18,295	129
Credit card receivables	41,195		
Less: allowance for doubtful receivables (Note a)	(1,036)		
	40,158	40,158	-
Billing receivables	153,835		
Less: allowance for doubtful receivables (Note a)	(22,605)		
	131,229	131,229	-
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	55,833	55,833	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	6,005		
Less: allowance for doubtful receivables (Note a)	(6,003)		
	2	2	-
Total assets	¥ 2,020,705	¥ 2,025,392	¥ 4,686
Trade notes and accounts payable	¥ 22,874	¥ 22,874	¥ -
Short-term borrowings	145,126	145,126	-
Lease obligations	890	836	(53)
Accounts payable - other	423,178	423,179	1
Deposits received	267,749	267,749	-
Deposits received from shareholders, directors or employees	687,387	687,387	-
Bonds payable	225,467	238,040	12,572
Long-term borrowings	200,467	203,353	2,886
Total liabilities	¥ 1,973,142	¥ 1,988,548	¥ 15,406
Derivative transactions (Note b):			
Qualifying for hedge accounting	¥ 403,689	¥ 13,401	¥ -
Total derivative transactions	¥ -	¥ 13,401	¥ -

March 31, 2014	Thousands of U.S. Dollars Carrying Amount	Fair Value	Difference
Cash and cash equivalents	$ 3,627,040	$ 3,627,040	$ -
Installment sales receivable	361,649		
Less: allowance for doubtful receivables (Note a)	(4,216)		
	357,432	357,743	310
Leases receivable and investments in leases	3,653,478		
Less: allowance for doubtful receivables (Note a)	(36,358)		
	3,617,120	3,644,762	27,642
Loans receivable	9,214,933		
Less: allowance for doubtful receivables (Note a)	(23,834)		
	9,191,090	9,206,490	15,390
Other receivables	459,463		
Less: allowance for doubtful receivables (Note a)	(2,652)		
	456,811	457,724	913
Rents receivable	177,885		
Less: allowance for doubtful receivables (Note a)	(1,379)		
	176,496	177,759	1,253
Credit card receivables	400,262		
Less: allowance for doubtful receivables (Note a)	(10,066)		
	390,186	390,186	-
Billing receivables	1,494,704		
Less: allowance for doubtful receivables (Note a)	(219,636)		
	1,275,058	1,275,058	-
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	542,489	542,489	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	58,346		
Less: allowance for doubtful receivables (Note a)	(58,326)		
	19	19	-
Total assets	$ 19,633,744	$ 19,679,284	$ 45,530
Trade notes and accounts payable	222,250	222,250	-
Short-term borrowings	1,410,085	1,410,085	-
Lease obligations	8,647	8,122	(514)
Accounts payable - other	4,111,717	4,111,727	9
Deposits received	2,601,525	2,601,525	-
Deposits received from shareholders, directors or employees	6,678,847	6,678,847	-
Bonds payable	2,190,701	2,312,864	122,153
Long-term borrowings	1,947,794	1,975,835	28,041
Total liabilities	$ 19,171,609	$ 19,321,298	$ 149,689
Derivative transactions (Note b):			
Qualifying for hedge accounting	$ 3,922,357	$ 130,207	$ -
Total derivative transactions	$ -	$ 130,207	$ -

Notes: a. General allowance for doubtful receivables and special allowance for specific receivables corresponding to respective operating receivables are deducted.

b. Receivables and payables arising from derivative transactions are presented on a net basis. The carrying amount of derivative transactions represents their contract amount.

March 31, 2013	Millions of Yen Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 184,988	¥ 184,988	¥ -
Installment sales receivable	20,421		
Less: allowance for doubtful receivables (Note a)	(460)		
	19,961	20,067	106
Leases receivable and investments in leases	357,320		
Less: allowance for doubtful receivables (Note a)	(5,402)		
	351,917	354,035	2,118
Loans receivable	658,254		
Less: allowance for doubtful receivables (Note a)	(2,403)		
	655,850	656,338	487
Other receivables	52,381		
Less: allowance for doubtful receivables (Note a)	(1,628)		
	50,752	50,909	156
Rents receivable	18,246		
Less: allowance for doubtful receivables (Note a)	(186)		
	18,060	18,120	60
Credit card receivables	39,995		
Less: allowance for doubtful receivables (Note a)	(1,332)		
	38,663	38,663	-
Billing receivables	325,728		
Less: allowance for doubtful receivables (Note a)	(14,845)		
	310,883	310,883	-
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	43,325	43,325	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	8,879		
Less: allowance for doubtful receivables (Note a)	(7,439)		
	1,439	1,439	-
Total assets	¥ 1,675,842	¥ 1,678,767	¥ 2,928
Trade notes and accounts payable	¥ 14,876	¥ 14,876	¥ -
Short-term borrowings	50,712	50,712	-
Lease obligations	1,232	1,234	2
Accounts payable - other	414,757	414,758	1
Deposits received	225,391	225,391	-
Deposits received from shareholders, directors or employees	510,324	510,324	-
Bonds payable	204,417	213,805	9,388
Long-term borrowings	200,094	202,908	2,814
Total liabilities	¥ 1,621,806	¥ 1,634,013	¥ 12,206
Derivative transactions (Note b):			
Not qualifying for hedge accounting	¥ (3)	¥ (3)	¥ -
Qualifying for hedge accounting	391,098	8,407	-
Total derivative transactions	¥ -	¥ 8,404	¥ -

Notes: a. General allowance for doubtful receivables and special allowance for specific receivables corresponding to respective operating receivables are deducted.

b. Receivables and payables arising from derivative transactions are presented on a net basis. The carrying amount of derivative transactions represents their contract amount.

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 Leases Receivable 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 leases receivable and investments in leases are presented net of lease payments received in advance.

The carrying amounts of doubtful receivables net of allowance for such accounts approximate their fair values because allowance for such accounts is estimated based on collectible amounts through liquidation of collateral and/or realization of guarantees.

Loans Receivable and Other Receivables

The carrying amounts of loans with variable interest rates approximate their fair values because such loans reflect market rates in the short term and credit conditions of counterparties do not significantly change after the loan executions. The fair value of loans with fixed interest rates is calculated by discounting contractual cash flows using interest rates currently available to the Group for similar transactions.

The carrying amounts of doubtful receivables net of allowance for such accounts approximate their fair values due to the same reason as described above.

Rents Receivable

The fair value of this item is calculated by discounting contractual cash flows using interest rates currently available to the Group for similar transactions.

The carrying amounts of doubtful receivables net of allowance for such accounts approximate their fair values due to the same reason as described above.

Investments in Venture Businesses, Securities, and Investment Securities

The fair values of listed stocks are determined based on quoted market prices, and the fair values of debt securities are generally valued at the market quotes obtained from financial institutions, which are estimated taking into account relevant factors such as fluctuations in interest rates, credit rating, remaining maturity and the fair value of underlying assets in case of asset-backed securities. If market quotes from financial institutions are not available, the fair value is calculated by discounting estimated future cash flows using interest rates currently available to the Group for similar transactions.

The information on securities classified by holding purpose is presented in Note 4 on securities, investment securities and investments in venture businesses.

Other under Investments and Other Assets (Receivables from Companies in Bankruptcy and Reorganization)

The carrying amount of this item, net of the related allowance, approximates its fair value because the allowance for this item is estimated based on collectible amounts through liquidation of collateral and/or realization of guarantees.

Liabilities

Trade Notes and Accounts Payable, Short-term Borrowings, and Deposits Received

The carrying amounts of these items approximate their fair values because of their short maturities.

Lease Obligations and Accounts Payable - Other

Of lease obligations and accounts payable - other, the fair values of sub-lease obligations and sub-installments payable are calculated by discounting contractual cash flows using interest rates currently available to the Group for similar transactions. The carrying amounts of these items other than above approximate their fair values because of their short maturities.

Deposits Received from Shareholders, Directors or Employees

The carrying amount of this item other than long-term deposits described below approximates its fair value because of its short maturities.

Since long-term deposits received from shareholders, directors or employees are at variable interest rates and reflect market rates in the short term and credit condition of the Company does not significantly change after acceptance of the deposits, the carrying amount approximates its fair value.

Bonds Payable

The fair value of bonds is estimated based on the Reference Statistical Prices for OTC Bond Transactions.

Long-term Borrowings

The carrying amounts of borrowings with variable interest rates approximate their fair values because such borrowings reflect market rates in the short term and credit condition of the Company does not significantly change after the borrowing executions. The fair values of borrowings with fixed interest rates are calculated by discounting contractual cash flows using interest rates currently available to the Group for similar transactions.

Derivative Transactions

The information on derivative transactions is presented in Note 14 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, 2014 and 2013 are summarized as follows. These instruments are excluded from investments in venture businesses, securities and investment securities in the above table.

		Carrying Amount		
		Millions of Yen		Thousands of U.S. Dollars
Classification	Type	2014	2013	2014
Investments in affiliates	Unlisted equity securities	¥ 198	¥ 202	$ 1,923
Available-for-sale securities	Unlisted equity securities	6,867	6,120	66,721
	Investments in partnerships	1,222	1,296	11,873
	Total available-for-sale securities	¥ 8,089	¥ 7,416	$ 78,595

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

March 31, 2014	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	¥ 373,295	¥ -	¥ -	¥ -	¥ -	¥ -
Installment sales receivable (Note a)	9,860	8,048	6,583	5,168	2,653	6,050
Leases receivable and investments in leases (Notes a and b)	119,479	93,243	73,169	54,559	37,469	35,764
Loans receivable (Note a)	368,256	324,129	69,775	56,878	78,764	50,596
Other receivables (Note a)	17,419	4,457	10,225	2,102	3,774	9,307
Rents receivable (Note a)	3,427	742	1,515	2,314	2,949	7,359
Credit card receivables (Note a)	41,195	-	-	-	-	-
Billing receivables (Note a)	153,835	-	-	-	-	-
Investments in venture businesses, securities and investment securities:						
Available-for-sale securities with contractual maturities (Note a)	4,008	10,989	6,901	2,349	4,428	9,752

March 31, 2014	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	$ 3,627,040	$ -	$ -	$ -	$ -	$ -
Installment sales receivable (Note a)	95,802	78,196	63,962	50,213	25,777	58,783
Leases receivable and investments in leases (Notes a and b)	1,160,891	905,975	710,930	530,110	364,059	347,493
Loans receivable (Note a)	3,578,080	3,149,329	677,953	552,642	765,293	491,605
Other receivables (Note a)	169,247	43,305	99,349	20,423	36,669	90,429
Rents receivable (Note a)	33,297	7,209	14,720	22,483	28,653	71,502
Credit card receivables (Note a)	400,262	-	-	-	-	-
Billing receivables (Note a)	1,494,704	-	-	-	-	-
Investments in venture businesses, securities and investment securities:						
Available-for-sale securities with contractual maturities (Note a)	38,942	106,772	67,052	22,823	43,023	94,753

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 leases receivable and investments in leases.

March 31, 2013	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
	Millions of Yen					
Cash and cash equivalents	¥184,988	¥ -	¥ -	¥ -	¥ -	¥ -
Installment sales receivable (Note a)	7,640	5,246	3,615	2,433	1,541	605
Leases receivable and investments in leases (Notes a and b)	123,877	93,393	67,206	47,305	29,975	29,599
Loans receivable (Note a)	113,231	92,872	318,062	57,037	25,597	51,451
Other receivables (Note a)	20,346	10,698	4,830	6,504	1,676	8,325
Rents receivable (Note a)	5,479	3,888	3,316	2,546	1,709	1,306
Credit card receivables (Note a)	39,995	-	-	-	-	-
Billing receivables (Note a)	325,728	-	-	-	-	-
Investments in venture businesses, securities and investment securities:						
Available-for-sale securities with contractual maturities (Note a)	2,381	-	10,627	3,759	5,048	13,273

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 leases receivable 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 8 on short-term and long-term debt.

12. DERIVATIVES

The Group did not have any derivative transactions outstanding (excluding hedging transactions) as of March 31, 2014. The aggregate amounts contracted to be paid or received, fair value and unrealized gains or losses of derivative transactions other than market trades as of March 31, 2013 (excluding hedging transactions) are as follows. Fair value is quoted based on the price information from the counterparty financial institution.

	Millions of Yen			
	Contract Amount			
	Total	Due after 1 Year	Fair Value	Unrealized Gain/(Loss)
March 31, 2013				
Currency swaps	¥ 146	¥ -	¥ (3)	¥ (3)

Derivative instruments which qualify as hedging instruments as of March 31, 2014 and 2013 are summarized as follows. Fair value is quoted based on the price information from the counterparty financial institution.

		Millions of Yen		
		Contract Amount		
	Hedged Item	Total	Due after 1 Year	Fair Value
March 31, 2014				
Interest rate swaps (Pay fixed rate, receive variable rate) (Note a)	Long-term borrowings	¥ 297,634	¥ 284,434	¥ (39)
	Loans receivable	62,225	30,725	(172)
Currency swaps (Note b)	Bonds payable	43,830	39,530	13,613
Total		¥ 403,689	¥ 354,689	¥ 13,401

		Thousands of U.S. Dollars		
March 31, 2014				
Interest rate swaps (Pay fixed rate, receive variable rate) (Note a)	Long-term borrowings	$2,891,896	$ 2,763,641	$ (378)
	Loans receivable	604,595	298,532	(1,671)
Currency swaps (Note b)	Bonds payable	425,864	384,084	132,267
Total		$3,922,357	$ 3,446,259	$ 130,207

		Millions of Yen		
March 31, 2013				
Interest rate swaps (Pay fixed rate, receive variable rate) (Note a)	Long-term borrowings	¥ 292,661	¥ 273,661	¥ (594)
	Loans receivable	54,500	41,500	(330)
Currency swaps (Note b)	Bonds payable	43,936	43,830	9,332
Total		¥ 391,098	¥ 358,991	¥ 8,407

Notes:
a. These contracts are not remeasured at market value, but the differential paid or received under the swap agreements are recognized and included in interest expense or income.
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.

13. PLEDGED ASSETS AND COLLATERAL

As of March 31, 2014 and 2013 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Assets pledged as collateral:			
Leases receivable and investments in leases	¥ 7,776	¥ 8,633	$ 75,553
Rents receivable	1,698	1,591	16,498
Leased assets	4,880	5,207	47,415
Total	¥ 14,356	¥ 15,431	$ 139,486
Corresponding debt:			
Current portion of long-term borrowings	¥ 517	¥ 538	$ 5,023
Other under current liabilities (Payables associated with securitization of receivables)	10,000	11,000	97,162
Long-term borrowings	967	1,339	9,395
Other under long-term liabilities (Long-term deposits received)	37	94	359

As of March 31, 2014, the Group had ¥3,135 million ($30,460 thousand) of notes receivable which was obtained for installment sales.

14. COMMITMENTS AND CONTINGENCIES

As of March 31, 2014, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantee of penalties for breach of lease contracts	¥ 631	$ 6,130
Guarantee of property lease contracts	652	6,335
Guarantee of bank loans	2,808	27,283
Other guarantees	1,120	10,882
Unexecuted loan commitments (Note)	788,296	7,659,308

Note: The Company enters into loan commitment agreements with customers. As of March 31, 2014, loan commitments given to customers were ¥1,064,379 million ($10,341,809 thousand), of which ¥276,082 million ($2,682,491 thousand) had been executed.

These credit lines are not necessarily executed to the maximum amount, because these agreements contain a clause to reject the loans or to lower the credit lines if there are reasonable grounds.

15. COMPREHENSIVE INCOME

Reclassification adjustments and related income tax effect on other comprehensive income for the years ended March 31, 2014 and 2013 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 1,636	¥ 514	$ 15,895
Reclassification adjustments	(1,050)	322	(10,202)
Amount before income tax effect	586	836	5,693
Income tax effect	(208)	(274)	(2,020)
Unrealized gain on available-for-sale securities	377	562	3,663
Foreign currency translation adjustments:			
Gains arising during the year	302	300	2,934
Reclassification adjustments	-	247	-
Foreign currency translation adjustments	302	548	2,934
Share of other comprehensive income of affiliates accounted for using equity method:			
Gains arising during the year	231	110	2,244
Total other comprehensive income	¥ 911	¥ 1,221	$ 8,851

16. SEGMENT INFORMATION

Description of reportable segments

Reportable segments of the Group are defined as components of the Group whose financial information is separately available and evaluated periodically by the Board of Directors in order to determine the allocation of resources and assess business performance.

The Group is engaged in financial service businesses mainly comprised of lease activities. The reportable segments of the Group are composed of five segments: “Lease business,” “Loan business,” “Investment business,” “Credit card business” and “Billing business.”

“Lease business” leases and sells on installment information and office equipment, industrial machine tools as well as commercial, manufacturing and hospital facilities. “Loan business” provides loans and factoring operations. “Investment business” consists of investments in venture business, debt securities and silent partnerships, and provides related services. “Credit card business” collects fees on credit cards from member stores and cardholders, and provides sales financing and consumer loans. “Billing business” provides services for billing and collection of communication service charges.

From the fiscal year ended March 31, 2014, the “other” segment has been abolished due to a change in the corporate structure, and the businesses previously included in “other” have been consolidated into the other related segments: Non-life insurance agent business into “Lease business,” and cash management business for NTT Group as well as guarantee business into “Loan business.”

Segment information for the year ended March 31, 2013 was prepared and disclosed based on the new reportable segments for the year ended March 31, 2014.

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, 2014 and 2013. Assets are not allocated to reportable segments.

	Millions of Yen					
	2014					
	Reportable Segment					
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	¥ 169,828	¥ 6,934	¥ 3,778	¥ 5,057	¥ 216,022	¥ 401,622
Intersegment revenue or transfers	-	-	-	25,989	228	26,218
Total	¥ 169,828	¥ 6,934	¥ 3,778	¥ 31,047	¥ 216,251	¥ 427,840
Segment profit	¥ 13,598	¥ 4,031	¥ 2,725	¥ 2,405	¥ 3,452	¥ 26,212

	Thousands of U.S. Dollars					
	2014					
	Reportable Segment					
	Lease	Loan	Investment	Credit Card	Billing	Total
Revenue from external customers	$ 1,650,097	$ 67,372	$ 36,708	$ 49,135	$ 2,098,931	$ 3,902,273
Intersegment revenue or transfers	-	-	-	252,516	2,215	254,741
Total	$ 1,650,097	$ 67,372	$ 36,708	$ 301,661	$ 2,101,156	$ 4,157,015
Segment profit	$ 132,122	$ 39,166	$ 26,476	$ 23,367	$ 33,540	$ 254,683

	Millions of Yen											
	2013											
	Reportable Segment											
	Lease		Loan		Investment		Credit Card		Billing		Total	
Revenue from external customers	¥	181,578	¥	5,979	¥	2,296	¥	6,214	¥	176,706	¥	372,776
Intersegment revenue or transfers		-		-		-		18,656		130		18,786
Total	¥	181,578	¥	5,979	¥	2,296	¥	24,871	¥	176,836	¥	391,562
Segment profit	¥	15,428	¥	3,466	¥	1,000	¥	2,363	¥	4,294	¥	26,553

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
	2014	2013	2014
Revenue:			
Reportable segments total	¥ 427,840	¥ 391,562	$ 4,157,015
Intersegment eliminations	(26,218)	(18,786)	(254,741)
Revenue in the consolidated statements of income	¥ 401,622	¥ 372,776	$ 3,902,273
Segment profit:			
Reportable segments total	¥ 26,212	¥ 26,553	$ 254,683
Corporate expenses (Note)	(7,944)	(7,148)	(77,186)
Operating income in the consolidated statements of income	¥ 18,267	¥ 19,404	$ 177,487

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

Related information

Disclosures on information by product and service are omitted, as the information is equivalent to the above information by reportable segment.

Disclosures on information by geographical area are omitted, as each of revenue from external customers and total property and equipment in Japan exceeds 90% of consolidated revenue and property and equipment, respectively.

Information about revenue by major customer for the year ended March 31, 2014 is as follows:

	Revenue		
	Millions of Yen	Thousands of U.S. Dollars	Related Segments
NTT DOCOMO, INC.	¥ 100,095	$ 972,551	Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION	57,818	561,776	Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	53,953	524,222	Lease and Billing

Information about revenue by major customer for the year ended March 31, 2013 is as follows:

	Revenue	
	Millions of Yen	Related Segments
NTT DOCOMO, INC.	¥ 87,791	Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION	48,380	Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	43,241	Lease and Billing

Loss on impairment of long-lived assets by reportable segment

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

Goodwill by reportable segment

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

17. RELATED PARTY TRANSACTIONS

Transactions and account balances of the Company with NTT, which had a 92.17% (direct) and 7.82% (indirect) and 91.11% (direct) and 8.19% (indirect) ownership share in the Company in 2014 and 2013, respectively, as of and for the years ended March 31, 2014 and 2013 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Transactions:			
Acceptance of excess funds	¥ 82,388	¥ 150,123	$ 800,505
Execution of loans	311,405	44,615	3,025,699
Account balances:			
Loans receivable	390,000	240,000	3,789,350
Deposits received from shareholders, directors or employees	2,340	101,543	22,736

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 9 other NTT Group companies as of and for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Transactions:			
Acceptance of excess funds	¥ 477,198	¥ 200,283	$ 4,636,591
Execution of loans	178,714	189,066	1,736,436
Transactions related to transferred receivables	5,670,115	4,226,051	55,092,450
Billing-related revenue	207,899	172,933	2,020,005
Account balances:			
Billing receivables	14,292	24,538	138,865
Accounts payable - other	381,504	375,260	3,706,801
Deposits received	202,296	192,125	1,965,565
Deposits received from shareholders, directors or employees	444,857	152,934	4,322,357
Long-term deposits received from shareholders, directors or employees	240,000	240,000	2,331,908
Loans receivable	265,621	179,821	2,580,849

18. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2014 was approved at the Company's shareholders meeting held on June 20, 2014:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥54,960.00 ($534.00) per share	¥ 2,823	$ 27,429

* * * * *

Independent Auditor's Report

To the Board of Directors of NTT FINANCE CORPORATION:

We have audited the accompanying consolidated financial statements of NTT FINANCE CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NTT FINANCE CORPORATION and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(s) to the consolidated financial statements, which describes that starting from the fiscal year ended March 31, 2014, the Company has elected to change its method of accounting for recognition of past service costs related to retirement benefits.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 20, 2014
Tokyo, Japan