

Consolidated Financial Statements

NTT FINANCE CORPORATION and Consolidated Subsidiaries

For the Years ended March 31,
2016 and 2015
Together with Independent Auditor's Report

NTT FINANCE CORPORATION and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2016 and 2015

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016		2016	2015	2016
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents (Note 11)	¥ 530,173	¥ 313,636	\$ 4,705,121	Short-term bank loans (Notes 6 and 11)	¥ 43,283	¥ 34,000	\$ 384,130
Lease receivables and investments in leases (Notes 10, 11, and 13)	437,198	403,757	3,880,004	Current portion of long-term borrowings (Notes 6, 11 and 13)	45,233	45,336	401,432
Trade accounts receivable (Note 11):				Current portion of bonds (Notes 6 and 11)	61,124	44,998	542,546
Installment sales (Note 13)	72,770	57,657	645,812	Commercial papers (Notes 6 and 11)	-	206,993	-
Loans (Note 17)	900,854	967,036	7,994,806	Lease obligations (Notes 6, 10 and 11)	680	787	6,042
Other loans (Note 13)	55,561	55,135	493,088	Trade notes and accounts payable (Note 11)	20,702	22,341	183,728
Rents (Note 13)	20,875	19,568	185,265	Accounts payable - other (Notes 11 and 17)	434,456	432,857	3,855,668
Credit cards	48,942	48,701	434,345	Accrued income taxes	1,957	2,709	17,369
Billing (Note 17)	128,425	142,412	1,139,736	Unearned profit on installment sales	2,352	1,832	20,878
Allowance for doubtful receivables	(23,783)	(25,233)	(211,074)	Deposits received (Notes 11 and 17)	145,778	301,640	1,293,742
Investments in venture businesses (Notes 3 and 11)	2,044	2,043	18,146	Deposits received from shareholders, directors or employees (Notes 11 and 17)	817,546	187,112	7,255,474
Securities (Notes 3 and 11)	5,811	11,801	51,574	Current portion of long-term deposits received from shareholders, directors or employees (Notes 11 and 17)	-	240,000	-
Deferred tax assets (Note 9)	3,641	6,907	32,314	Asset retirement obligations	226	61	2,013
Other	36,978	41,681	328,170	Other (Notes 6 and 13)	16,325	21,267	144,887
Total current assets	2,219,493	2,045,105	19,697,314	Total current liabilities	1,589,669	1,541,938	14,107,824
PROPERTY AND EQUIPMENT, NET (Note 4):				LONG-TERM LIABILITIES:			
Leased assets (Note 13)	32,591	34,782	289,242	Bonds	162,658	219,691	1,443,543
Assets held for own use	4,333	4,779	38,457	Long-term borrowings (Notes 6, 11 and 13)	463,109	277,709	4,109,949
Total property and equipment, net	36,925	39,562	327,699	Lease obligations (Notes 6 and 11)	23	34	208
INTANGIBLE ASSETS—Assets held for own use	3,240	4,383	28,754	Accrued directors' retirement benefits	46	47	413
INVESTMENTS AND OTHER ASSETS:				Defined benefit liability (Note 7)	24,367	7,861	216,252
Investment securities (Notes 3, 5 and 11)	86,831	69,471	770,604	Deferred tax liabilities (Note 9)	84	-	750
Defined benefit asset (Note 7)	203	333	1,806	Asset retirement obligations	2,170	2,189	19,261
Deferred tax assets (Note 9)	8,707	4,055	77,276	Other (Note 13)	10,592	8,796	94,002
Other (Notes 5 and 11)	15,358	15,483	136,301	Total long-term liabilities	663,052	516,331	5,884,380
Allowance for doubtful receivables (Note 11)	(3,369)	(4,557)	(29,900)	Total liabilities	2,252,721	2,058,269	19,992,205
Allowance for investment loss	-	(1)	-	NET ASSETS:			
Total investments and other assets	107,732	84,784	956,088	Shareholders' equity (Note 8 and 18):			
				Common stock—authorized, 80,000 shares; issued, 51,960 shares in 2016 and 2015	16,770	16,770	148,837
				Capital surplus	15,950	15,950	141,555
				Retained earnings	83,292	80,209	739,196
				Treasury stock; 595 shares in 2016 and 2015	(1,126)	(1,126)	(10,001)
				Total shareholders' equity	114,887	111,803	1,019,587
				Accumulated other comprehensive income:			
				Unrealized gain on available-for-sale securities	1,141	1,275	10,133
				Foreign currency translation adjustments	498	968	4,427
				Remeasurements of defined benefit plans	(2,637)	816	(23,409)
				Total accumulated other comprehensive income	(996)	3,061	(8,847)
				Non-controlling interests	778	701	6,912
				Total net assets	114,669	115,566	1,017,651
TOTAL ASSETS	¥ 2,367,390	¥ 2,173,836	\$ 21,009,856	TOTAL LIABILITIES AND NET ASSETS	¥ 2,367,390	¥ 2,173,836	\$ 21,009,856

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Consolidated Statements of Income
Years Ended March 31, 2016 and 2015**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
REVENUE:	¥ 383,460	¥ 396,931	\$ 3,403,088
COST OF SALES	<u>229,916</u>	<u>234,108</u>	<u>2,040,440</u>
Gross profit	153,543	162,822	1,362,648
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>137,023</u>	<u>145,912</u>	<u>1,216,042</u>
Operating income	<u>16,519</u>	<u>16,910</u>	<u>146,606</u>
OTHER INCOME:			
Interest income	0	0	1
Dividend income	28	58	256
Foreign exchange gain	-	347	-
Equity in earnings of affiliates	117	80	1,041
Gain on bad debts recovered	391	345	3,478
Other	47	73	417
Total other income	<u>585</u>	<u>905</u>	<u>5,194</u>
OTHER EXPENSES:			
Interest expense	229	212	2,034
Bond issuance costs	-	155	-
Foreign exchange loss	527	-	4,681
Loss on retirement of assets held for own use	241	147	2,147
Other	16	33	148
Total other expenses	<u>1,015</u>	<u>549</u>	<u>9,011</u>
EXTRAORDINARY LOSSES:			
Loss on valuation of investment securities (Note 3)	<u>3,491</u>	<u>-</u>	<u>30,987</u>
Total extraordinary losses	3,491	-	30,987
PROFIT BEFORE TAXES	<u>12,597</u>	<u>17,266</u>	<u>111,801</u>
INCOME TAXES (Note 9):			
Current	4,985	5,124	44,243
Deferred	<u>346</u>	<u>1,333</u>	<u>3,076</u>
Total income taxes	<u>¥ 5,331</u>	<u>¥ 6,458</u>	<u>\$ 47,319</u>

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Consolidated Statements of Income
Years Ended March 31, 2016 and 2015**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
PROFIT	¥ 7,265	¥ 10,807	\$ 64,482
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	77	39	686
PROFIT ATTRIBUTABLE TO OWNERS OF PARENT	¥ 7,188	¥ 10,768	\$ 63,795
	Yen		U.S. Dollars (Note 1)
	2016	2015	2016
PER SHARE OF COMMON STOCK:			
Weighted average number of shares outstanding	51,365	51,365	51,365
Basic earnings per share	¥ 139,949.15	¥ 209,637.38	\$ 1,242.00
Cash dividends applicable to the year (Note 18)	60,620.00	79,920.00	537.98

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
PROFIT	¥ 7,265	¥ 10,807	\$ 64,482
OTHER COMPREHENSIVE INCOME/(LOSS) (Note 15):			
Net unrealized gain/(loss) on available-for-sale securities	(133)	98	(1,188)
Foreign currency translation adjustments	(364)	719	(3,234)
Remeasurements of defined benefit plans	(3,454)	708	(30,656)
Share of other comprehensive income of affiliates accounted for using equity method	(105)	191	(934)
Total other comprehensive income/(loss)	(4,058)	1,718	(36,013)
COMPREHENSIVE INCOME	¥ 3,207	¥ 12,525	\$ 28,468
Comprehensive income attributable to:			
Owners of parent	¥ 3,130	¥ 12,486	\$ 27,781
Non-controlling interests	77	39	686

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2016 and 2015

	Millions of Yen											
	Shareholders' Equity					Accumulated Other Comprehensive Income						
	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	Non- controlling Interests	Total Net Assets
BALANCE, APRIL 1, 2014	51,365	¥ 16,770	¥ 15,950	¥ 71,885	¥ (1,126)	¥ 103,480	¥ 1,177	¥ 57	¥ 108	¥ 1,343	¥ 664	¥ 105,487
Cumulative effects of changes in accounting policies				378		378						378
RESTATED BALANCE, APRIL 1, 2014	51,365	16,770	15,950	72,264	(1,126)	103,858	1,177	57	108	1,343	664	105,865
Cash dividends, ¥54,960.00 per share				(2,823)		(2,823)						(2,823)
Profit attributable to owners of parent				10,768		10,768						10,768
Net changes of items other than shareholders' equity							98	911	708	1,718	37	1,755
BALANCE, MARCH 31, 2015	51,365	16,770	15,950	80,209	(1,126)	111,803	1,275	968	816	3,061	701	115,566
Cash dividends, ¥79,920.00 per share				(4,105)		(4,105)						(4,105)
Profit attributable to owners of parent				7,188		7,188						7,188
Net changes of items other than shareholders' equity							(133)	(469)	(3,454)	(4,058)	77	(3,980)
BALANCE, MARCH 31, 2016	51,365	¥ 16,770	¥ 15,950	¥ 83,292	¥ (1,126)	¥ 114,887	¥ 1,141	¥ 498	¥ (2,637)	¥ (996)	¥ 778	¥ 114,669

	Thousands of U.S. Dollars (Note 1)											
	Shareholders' Equity					Accumulated Other Comprehensive Income						
	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	Non- controlling Interests	Total Net Assets	
BALANCE, APRIL 1, 2015	\$ 148,837	\$ 141,555	\$ 711,832	\$ (10,001)	\$ 992,223	\$ 11,322	\$ 8,596	\$ 7,246	\$ 27,165	\$ 6,225	\$ 1,025,614	
Cash dividends, \$709.26 per share			(36,431)		(36,431)							(36,431)
Profit attributable to owners of parent			63,795		63,795							63,795
Net changes of items other than shareholders' equity						(1,188)	(4,169)	(30,656)	(36,013)	686	(35,327)	
BALANCE, MARCH 31, 2016	\$ 148,837	\$ 141,555	\$ 739,196	\$ (10,001)	\$ 1,019,587	\$ 10,133	\$ 4,427	\$ (23,409)	\$ (8,847)	\$ 6,912	\$ 1,017,651	

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Profit before taxes	¥ 12,597	¥ 17,266	\$ 111,801
Adjustments for:			
Depreciation of leased assets and assets held for own use	5,006	4,561	44,432
Loss on retirement of leased assets and assets held for own use	422	2,468	3,752
Decrease in allowance for investment loss	(1)	(92)	(10)
Decrease/(increase) in defined benefit asset	473	(401)	4,204
Increase in defined benefit liability	11,164	1,228	99,078
Decrease in accrued directors' retirement benefits	(0)	(6)	(8)
Decrease in allowance for doubtful receivables	(2,637)	(6,899)	(23,409)
Decrease in reserve for loss on business of affiliates	-	(129)	-
Interest and dividend income	(29)	(58)	(257)
Financing costs and interest expense	6,108	5,092	54,212
Foreign exchange loss/(gain)	527	(347)	4,681
Equity in earnings of affiliates	(117)	(80)	(1,041)
Loss on valuation of investment securities	3,494	3	31,011
Bond issuance costs	-	155	-
Increase in trade accounts receivable - installment sales	(15,112)	(19,293)	(134,119)
Increase in lease receivables and investments in leases	(33,604)	(27,052)	(298,229)
Decrease/(increase) in trade accounts receivable - loans	62,120	(10,646)	551,302
Increase in trade accounts receivable - other loans	(912)	(6,825)	(8,100)
Increase in trade accounts receivable - rents	(1,307)	(1,259)	(11,603)
Increase in trade accounts receivable - credit cards	(240)	(7,505)	(2,137)
Decrease in trade accounts receivable - billing	13,987	11,422	124,132
Increase in investments in venture businesses	(129)	(63)	(1,152)
Increase in other securities to earn financial income for operating purpose	(17,068)	(13,236)	(151,479)
Purchases of leased assets	(876)	(30,539)	(7,781)
Decrease in trade notes and accounts payable	(1,639)	(532)	(14,547)
Increase in accounts payable - other	1,599	9,679	14,191
Other—net	(11,704)	34,080	(103,870)
Subtotal	32,119	(39,012)	285,053
Interest and dividend income received	232	85	2,066
Interest expense paid	(4,780)	(5,143)	(42,425)
Income taxes paid	(5,839)	(3,544)	(51,828)
Net cash provided by/(used in) operating activities	¥ 21,732	¥ (47,615)	\$ 192,866

NTT FINANCE CORPORATION and Consolidated Subsidiaries

**Consolidated Statements of Cash Flows
Years Ended March 31, 2016 and 2015**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
Net cash provided by/(used in) operating activities	¥ 21,732	¥ (47,615)	\$ 192,866
INVESTING ACTIVITIES:			
Proceeds from withdrawal of time deposits	-	2	-
Payments into negotiable certificates of deposit	-	(2,000)	-
Proceeds from withdrawal of negotiable certificates of deposit	2,000	-	17,749
Payments for purchases of investment securities	-	(33)	-
Payments for purchases of investments in affiliates	(33)	(3,598)	(292)
Payments for investments in capital of subsidiaries and affiliates	-	(557)	-
Payments for purchases of assets held for own use	(1,432)	(1,362)	(12,712)
Payments for purchases of investments in capital	(1,500)	-	(13,312)
Proceeds from redemption of investments in capital	1,537	4,241	13,648
Other—net	(1,067)	(182)	(9,469)
Net cash used in investing activities	(494)	(3,491)	(4,388)
FINANCING ACTIVITIES:			
Increase/(decrease) in short-term bank loans	9,867	(68,853)	87,574
(Increase)/decrease in commercial papers	(206,993)	151,994	(1,837,002)
Increase in long-term borrowings	258,102	153,794	2,290,582
Repayments of long-term borrowings	(46,956)	(50,940)	(416,726)
Decrease in payables associated with securitization of receivables	(5,500)	(2,000)	(48,810)
Proceeds from issuance of bonds	6,057	75,136	53,758
Redemption of bonds	(45,000)	(40,000)	(399,361)
Cash dividends paid	(4,105)	(2,823)	(36,431)
Increase/(decrease) in deposits received	471,093	(225,261)	4,180,812
Repayments of long-term deposits received	(240,000)	-	(2,129,925)
Other—net	(25)	(0)	(227)
Net cash provided by/(used in) financing activities	196,541	(8,953)	1,744,241
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(1,241)	400	(11,022)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	216,536	(59,659)	1,921,697
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	313,636	373,295	2,783,424
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 530,173	¥ 313,636	\$ 4,705,121

See notes to consolidated financial statements.

NTT FINANCE CORPORATION and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Years Ended March 31, 2016 and 2015

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 ¥112.68 to \$1.00, the approximate rate of exchange at March 31, 2016, and then the translated amounts have been rounded down to the nearest thousand. As a result, the totals shown in the accompanying consolidated financial statements in U.S. dollar do not necessarily agree with the sums of the individual amounts. Such translation should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements as of March 31, 2016 include the accounts of the Company and its 13 significant subsidiaries, such as NTTL Holdings, Inc. (together, the “Group”).

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

Investment in 107 non-consolidated subsidiaries are stated at cost and are excluded from the scope of applying the equity method of accounting, including 84 operators under silent partnership agreements whose profit/loss and assets do not vest in operators, and 23 other non-consolidated subsidiaries due to their immaterial effect to the consolidated financial statements even though the equity method of accounting had been applied.

The fiscal year-end of one consolidated silent partnership is March 25. The financial statements of such partnership as of and for the year ended its respective closing date are used for consolidation and necessary adjustments were made to the consolidated financial statements to reflect any significant transactions between its fiscal year-end and March 31. The fiscal year-ends of a consolidated silent partnership and a consolidated subsidiary are September 30 and December 31, respectively. 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. Goodwill**—Goodwill is amortized using the straight-line method over the period where the respective goodwill is considered to be effective.
- g. Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured at the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- h. Bond Issuance Costs**—Bond issuance costs are charged to expense as incurred.
- i. Allowance for Doubtful Receivables**—Allowance for doubtful receivables is provided for at an amount sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful receivables such as due from debtors likely to become bankrupt and/or from debtors in bankruptcy and reorganization based on the examination on their financial conditions and the amount calculated based on the historical rate of losses for the other regular receivables.
- j. 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.
- k. Retirement Benefit Plans**—The Company has funded and unfunded defined benefit plans. In determining retirement benefit obligations, the benefit formula basis is used for the method of attributing expected benefit to periods. Past service costs are amortized by the straight-line method over the average remaining years of service of the employees when such past service costs occur. Actuarial gains or losses are amortized by the straight-line method over periods based on the average remaining years of service of the employees in the fiscal year 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 earnings per share is computed by dividing profit attributable to owners of parent by the weighted-average number of common shares outstanding for the period.

Diluted earnings per share reflects the potential dilution that could occur if stock acquisition rights were exercised into common stock. Diluted earnings per share of common stock assumes full exercise of the outstanding stock acquisition rights at the beginning of the year (or at the time of grant).

Diluted earnings per share is not disclosed because no potentially dilutive securities are outstanding.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the respective year.

- s. Changes in Accounting Policies*
Application of Accounting Standards for Business Combinations and Consolidated Financial Statements
The Company has applied the revised “Accounting Standard for Business Combinations” (Accounting

Standards Board of Japan (“ASBJ”) Statement No. 21, issued on September 13, 2013), the revised “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, issued on September 13, 2013) and the revised “Accounting Standards for Business Divestitures” (ASBJ Statement No. 7, issued on September 13, 2013), etc. from the consolidated fiscal year ended March 31, 2016. Under the revised accounting standards, the difference arising from the change in the Company’s ownership interest in subsidiaries is accounted for as capital surplus as long as the Company retains control over its subsidiaries, and acquisition-related costs are accounted for as expenses in the consolidated fiscal year in which the costs are incurred. Furthermore, adjustments of provisional accounting treatments for a business combination due to the completed measurement are retrospectively reflected as if the accounting for the business combination had been completed at the acquisition date, effective for a business combination which occurs on or after the beginning of the consolidated fiscal year ended March 31, 2016. In addition, in the consolidated balance sheet, the appellation “minority interest” has been changed to “non-controlling interests.” In the consolidated statement of income, “income before minority interest” has been changed to “profit,” and “net income” has been changed to “profit attributable to owners of parent.” Certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2015 to reflect these presentation changes.

In accordance with the transitional treatment provided for in Paragraph 58-2 (4) of the revised “Accounting Standard for Business Combinations,” in Paragraph 44-5 (4) of the revised “Accounting Standard for Consolidated Financial Statements” and in Paragraph 57-4 (4) of the revised “Accounting Standards for Business Divestitures,” the revised accounting standards have been applied from April 1, 2015. These changes have no effects on profit for the consolidated fiscal year ended March 31, 2016.

3. SECURITIES, INVESTMENT SECURITIES AND INVESTMENTS IN VENTURE BUSINESSES

Acquisition cost and fair value of available-for-sale securities as of March 31, 2016 and 2015 are as follows:

	Millions of Yen		
	2016		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	¥ 533	¥ 212	¥ 321
Debt securities	52,615	51,583	1,031
Others	11,459	11,146	312
Sub-total	64,608	62,943	1,665
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	21,468	21,621	(152)
Others	20,000	20,000	-
Sub-total	41,468	41,621	(152)
Total	¥ 106,077	¥ 104,565	¥ 1,512

	Thousands of U.S. Dollars		
	2016		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	\$ 4,738	\$ 1,886	\$ 2,851
Debt securities	466,945	457,791	9,154
Others	101,699	98,925	2,773
Sub-total	573,383	558,604	14,779
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	190,530	191,884	(1,354)
Others	177,493	177,493	-
Sub-total	368,024	369,378	(1,354)
Total	\$ 941,407	\$ 927,982	\$ 13,425

Unlisted equity securities of ¥4,119 million (\$36,555 thousand) and investments in partnerships of ¥799 million (\$7,095 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		
	2015		
	Fair Value	Acquisition Cost/ Amortized Cost	Difference
Securities with fair values exceeding acquisition costs or amortized costs:			
Equity securities	¥ 570	¥ 212	¥ 358
Debt securities	40,250	39,474	776
Others	13,093	12,551	542
Sub-total	<u>53,915</u>	<u>52,238</u>	<u>1,676</u>
Securities with fair values not exceeding acquisition costs or amortized costs:			
Debt securities	15,211	15,258	(46)
	2,000	2,000	-
Sub-total	<u>17,211</u>	<u>17,258</u>	<u>(46)</u>
Total	<u>¥ 71,127</u>	<u>¥ 69,497</u>	<u>¥ 1,630</u>

Unlisted equity securities of ¥7,466 million and investments in partnerships of ¥955 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, 2016 and 2015 are as follows:

	Millions of Yen		
	2016		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	¥ 22	¥ 22	¥ -

	Thousands of U.S. Dollars		
	2016		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	\$ 200	\$ 200	\$ -

	Millions of Yen		
	2015		
	Sales Amounts	Gain on Sale	Loss on Sale
Available-for-sale equity securities	¥ 436	¥ 424	¥ -

If the fair value of a security as of a fiscal year-end declines 50% or more from its acquisition cost, the difference between the fair value and the acquisition cost is recognized as loss on impairment.

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

Losses on impairment of available-for-sale securities and investments in affiliates for the year ended March 31, 2016 were ¥3,492 million (\$30,998 thousand) and ¥2 million (\$23 thousand), respectively. Losses on impairment of available-for-sale securities and investments in affiliates for the year ended March 31, 2015 were ¥99 million and ¥3 million, respectively.

As of March 31, 2016, debt securities held by the Group to earn financial income for operating purpose are included in securities and investment securities in the amount of ¥5,811 million (\$51,574 thousand) and ¥79,732 million (\$707,600 thousand), respectively. As of March 31, 2015, debt securities held by the Group to earn financial income are included in securities and investment securities in the amount of ¥9,801 million and ¥58,755 million, respectively.

4. PROPERTY AND EQUIPMENT, NET

Accumulated depreciation of leased assets and assets held for own use as of March 31, 2016 and 2015 are as follows:

	Millions of Yen		Thousands of
	2016	2015	U.S. Dollars
Leased assets	¥ 6,618	¥ 5,221	\$ 58,735
Assets held for own use	4,234	3,769	37,582

5. INVESTMENTS IN NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in non-consolidated subsidiaries and affiliates as of March 31, 2016 and 2015 are as follows:

	Millions of Yen		Thousands of
	2016	2015	U.S. Dollars
Investment securities	¥ 3,691	¥ 3,767	\$ 32,764
Other under investments and other assets	2,008	2,067	17,822

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, 2016 and 2015 consisted of the following:

	Interest Rate (%) (Notes a, b, c and d)	Millions of Yen		Thousands of U.S. Dollars
		2016	2015	2016
Short-term debt:				
Short-term bank loans	0.238	¥ 43,283	¥ 34,000	\$ 384,130
Commercial papers	-	-	206,993	-
Short-term borrowings		43,283	240,993	384,130
Lease obligations, current portion	-	274	276	2,433
Payables associated with securitization of receivables	0.100	2,500	8,000	22,186
Deposits received from NTT Group companies, including current portion of long-term deposits received from NTT Group companies	0.031	821,326	589,832	7,289,018
Long-term debt:				
Long-term borrowings	0.659	508,342	323,045	4,511,382
Unsecured bonds	0.15 – 0.56	154,983	199,973	1,375,434
Bonds issued under Euro Medium Term Note Program	0.88 – 2.07	68,798	64,716	610,565
Sub-total		732,125	587,735	6,497,382
Less current portion	1.070	106,357	90,335	943,889
Long-term debt		686,891	497,400	6,095,949
Lease obligations, excluding current portion	-	430	545	3,816

- Notes:
- Interest rate represents a weighted-average rate of interest on the outstanding balance of debt (excluding bonds and finance lease obligations) as of March 31, 2016.
 - Interest rate for unsecured bonds represents the range of annual coupon rates on series 40th to 47th bonds, rounded down to the nearest hundredth percent.
 - Interest rate for bonds issued under Euro Medium Term Note Program represents the range of annual coupon rates on series 1st to 4th, rounded down to the nearest hundredth percent.
 - Interest rate for finance lease obligations is not disclosed since lease obligations are recorded on the consolidated balance sheets in the amount not deducting the amount equivalent to interest that is included in the total lease payment.

The annual maturities of long-term borrowings, bonds payable, and lease obligations over 1 year through 5 years as of March 31, 2016 are summarized as follows:

March 31, 2016	Millions of Yen			
	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years
Long-term borrowings	¥ 34,765	¥ 118,749	¥ 49,854	¥ 30,101
Bonds payable	54,501	62,534	39,989	5,634
Lease obligations	154	105	50	11

March 31, 2016	Thousands of U.S. Dollars			
	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years
Long-term borrowings	\$ 308,532	\$1,053,863	\$ 442,445	\$ 267,144
Bonds payable	483,680	554,972	354,890	50,000
Lease obligations	1,373	934	450	101

7. RETIREMENT BENEFITS

(1) Overview of Retirement Benefit Plans

The Company has funded and unfunded defined benefit plans (mainly NTT corporate pension fund plan, contract-type corporate pension plan and lump-sum payment plan) and defined contribution plans. The defined benefit corporate pension plans, all of which are funded, provide lump-sum or pension benefits based on salaries and the length of service. The lump-sum payment plan, which is unfunded, provides lump-sum benefits based on salaries and the length of service.

Contribution to the contract-type corporate pension plan made on or after April 1, 2014 has been transferred to a defined contribution pension plan.

(2) **Defined Benefit Plans**

(a) *Reconciliation between retirement benefit obligations at beginning and end of year*

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Retirement benefit obligations at beginning of year	¥ 18,774	¥ 17,840	\$ 166,617
Cumulative effects of changes in accounting policies	-	(586)	-
Retirement benefit obligations at beginning of year after reflecting cumulative effects of changes in accounting policies	18,774	17,253	166,617
Current service costs	1,116	655	9,905
Interest costs	402	256	3,572
Actuarial gains and losses arising during year	5,395	(293)	47,886
Retirement benefits paid	(1,350)	(487)	(11,981)
Succession due to transfer	20,565	1,390	182,508
Retirement benefit obligations at end of year	¥ 44,904	¥ 18,774	\$ 398,509

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

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Plan assets at beginning of year	¥ 11,245	¥ 9,517	\$ 99,803
Expected return on plan assets	267	225	2,378
Actuarial gains and losses arising during year	498	739	4,424
Contribution from employer	255	169	2,263
Retirement benefits paid	(517)	(311)	(4,593)
Succession due to transfer	9,000	909	79,879
Other	(10)	(4)	(92)
Plan assets at end of year	¥ 20,740	¥ 11,245	\$ 184,063

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

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Retirement benefit obligations of funded plans	¥ 30,674	¥ 13,698	\$ 272,228
Plan assets	(20,740)	(11,245)	(184,067)
	9,934	2,452	88,160
Retirement benefit obligations of unfunded plans	14,229	5,075	126,280
Net balance of liability and asset recorded on the consolidated balance sheet	24,163	7,528	214,441
Defined benefit liability	24,367	7,861	216,252
Defined benefit asset	(203)	(333)	(1,806)
Net balance of liability and asset recorded on the consolidated balance sheet	¥ 24,163	¥ 7,528	\$ 214,441

Note: In the previous financial statements, the reconciliation of retirement benefit obligations and plan assets was separately presented by each retirement benefit plan. However, the reconciliation is summarized into funded and unfunded plans from March 31, 2016 as the number of plan increased due to the transfer of employees from group companies on October 1, 2015. The prior year presentation was revised to conform with the current year's presentation.

(d) Profit and loss related to retirement benefits

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Current service costs	¥ 1,116	¥ 1,209	\$ 9,905
Interest costs	402	256	3,572
Expected return on plan assets	(267)	(225)	(2,378)
Amortization of actuarial gains and losses	(35)	65	(316)
Amortization of past service costs	(64)	(64)	(570)
Retirement benefit costs on defined benefit plans	¥ 1,150	¥ 1,242	\$ 10,213

(e) Remeasurements of defined benefit plans recorded in other comprehensive income

Breakdown of items recorded as remeasurements of defined benefit plans, before tax, recorded in other comprehensive income is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Past service costs	¥ (64)	¥ (64)	\$ (570)
Actuarial gains and losses	(4,932)	1,099	(43,778)
Total	¥ (4,997)	¥ 1,034	\$ (44,348)

(f) Remeasurements of defined benefit plans recorded in accumulated other comprehensive income

Breakdown of items recorded as remeasurements of defined benefit plans, before tax, included in accumulated other comprehensive income is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized past service costs	¥ 549	¥ 613	\$ 4,872
Unrecognized actuarial gains and losses	(4,343)	589	(38,548)
Total	¥ (3,794)	¥ 1,202	\$ (33,676)

(g) Breakdown of plan assets

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

	2016	2015
Cash and cash equivalents	1.33%	0.70%
Debt securities	45.50	43.44
Equity securities	15.59	26.69
Beneficiary certificates of securities investment trust	16.46	6.79
Jointly managed money trust	7.18	9.00
General account of life insurance	13.83	13.22
Other	0.11	0.16
Total	100.00%	100.00%

Note: In the previous financial statements, the breakdown of plan assets was separately presented by each retirement benefit plan. However, the company prepares a combined breakdown of plan assets covering all plans from March 31, 2016 as the number of plan increased due to the transfer of employees from group companies on October 1, 2015. The prior year presentation was revised to conform with the current year's presentation.

(h) *Determination of long-term expected rate of return*

In determining long-term expected rate of return on plan assets, the Company considers current and future plan asset portfolio, and expected return and risks based on the analysis of past yields on various long-term investments.

(i) *Actuarial assumptions*

	2016	2015
Actuarial assumptions at end of year:		
Discount rate	0.1 - 0.5%	1.5%
Long-term expected rate of return:		
NTT corporate pension fund	2.5%	2.5%
Contract-type corporate pension	2.0%	2.0%

(3) *Defined Contribution Plans*

The required contributions to the defined contribution plans of the Group amounted to ¥207 million and ¥220 million (\$1,960 thousand), for the years ended March 31, 2016 and 2015, respectively.

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 32.87% and 35.41% for the years ended March 31, 2016 and 2015, 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, 2016 and 2015 are as follows:

	Millions of Yen		Thousands of
	2016	2015	U.S. Dollars
Deferred tax assets:			
Current:			
Allowance for doubtful receivables	¥ 2,220	¥ 5,981	\$ 19,703
Accrued enterprise taxes	207	220	1,844
Accrued bonuses	586	640	5,203
Accounts payable - other	197	202	1,750
Loss on valuation of investments in venture businesses	320	353	2,846
Unearned profit on installment sales	223	234	1,980
Others	265	179	2,353
Sub-total	4,020	7,812	35,684
Valuation allowance	(306)	(762)	(2,724)
Total deferred tax assets - current	3,713	7,049	32,959
Noncurrent:			
Allowance for doubtful receivables	913	1,367	8,106
Accrued retirement benefits	7,424	2,545	65,894
Impairment loss	8	21	73
Loss on valuation of investment securities	1,097	34	9,741
Allowance for investment loss	-	0	-
Others	2,631	2,399	23,349
Sub-total	12,075	6,367	107,165
Valuation allowance	(2,070)	(1,041)	(18,370)
Total deferred tax assets - noncurrent	10,005	5,325	88,794
Total deferred tax assets	13,719	12,374	121,754
Deferred tax liabilities:			
Current:			
Unrealized gain on available-for-sale securities	(58)	(121)	(518)
Others	(14)	(20)	(125)
Total deferred tax liabilities - current	(72)	(141)	(644)
Noncurrent:			
Unrealized gain on available-for-sale securities	(442)	(485)	(3,926)
Effect of change in finance lease accounting	(386)	(301)	(3,427)
Others	(553)	(483)	(4,915)
Total deferred tax liabilities - noncurrent	(1,382)	(1,270)	(12,268)
Total deferred tax liabilities	(1,455)	(1,411)	(12,913)
Net deferred tax assets	¥ 12,264	¥ 10,962	\$ 108,841

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, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Statutory tax rate	32.87%	35.41%
Entertainment expenses permanently not deductible for income tax purposes	0.25	0.20
Tax on undistributed profits for a family corporation	0.64	0.47
Per capita inhabitant tax	0.97	0.78
Changes in valuation allowance	5.68	(1.16)
Equity in earnings of affiliates	(0.31)	(0.16)
Adjustment to deferred tax assets due to changes in tax rate	4.68	5.89
Tax credit for employment promotion	(2.83)	-
Others	0.37	(4.04)
Actual effective tax rate	<u>42.32%</u>	<u>37.40%</u>

The “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 15 of 2016) and the “Act for Partial Revision of the Local Tax Act, etc.” (Act No. 13 of 2016) were enacted on March 29, 2016, and the corporate tax rate will be reduced from the year beginning on or after April 1, 2016. Consequently, the statutory tax rate used to calculate deferred tax assets and deferred tax liabilities was changed from 32.10% to 30.72% for temporary differences expected to be reversed in the years beginning April 1, 2016 and April 1, 2017, and to 30.49% for temporary differences expected to be reversed realized in or after the year beginning April 1, 2018.

As a result of this change, deferred tax assets, after deducting deferred tax liabilities, and remeasurements of defined benefit plans under accumulated other comprehensive income decreased by ¥629 million (\$5,590 thousand) and ¥61 million (\$542 thousand) as of March 31, 2016, respectively, while unrealized gain on available-for-sale securities increased by ¥21 million (\$189 thousand) as of March 31, 2016 and income taxes - deferred increased by ¥590 million (\$5,237 thousand) for the year ended March 31, 2016.

10. LEASES

Lease transactions as lessor

Information relating to finance leases of the Group as lessor for the years ended March 31, 2016 and 2015 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Lease payments receivable	¥ 337,618	¥ 321,931	\$ 2,996,255
Estimated residual value	4,737	4,979	42,046
Unearned interest income	(37,150)	(31,596)	(329,701)
Investments in leases	<u>¥ 305,205</u>	<u>¥ 295,314</u>	<u>\$ 2,708,600</u>

The aggregate annual maturities of lease receivables and investments in leases as of March 31, 2016 and 2015 are summarized as follows:

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
March 31, 2016						
Lease receivables	¥ 34,902	¥ 30,866	¥ 24,228	¥ 18,682	¥ 10,106	¥ 20,440
Investments in leases	93,930	79,137	67,459	43,702	25,920	27,468
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
March 31, 2016						
Lease receivables	\$ 309,745	\$ 273,934	\$ 215,018	\$ 165,804	\$ 89,696	\$ 181,406
Investments in leases	833,600	702,323	598,679	387,843	230,036	243,772
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
March 31, 2015						
Lease receivables	¥ 29,141	¥ 25,354	¥ 21,198	¥ 18,354	¥ 9,807	¥ 15,849
Investments in leases	91,484	74,867	60,466	44,856	25,232	25,023

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

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Due in 1 year or less	¥ 2,779	¥ 2,855	\$ 24,665
Due after 1 year	17,541	20,472	155,674
Total	¥ 20,320	¥ 23,327	\$ 180,339

Lease transactions as lessee

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

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Due in 1 year or less	¥ 605	¥ 604	\$ 5,373
Due after 1 year	1,888	2,367	16,759
Total	¥ 2,493	¥ 2,971	\$ 22,132

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, lease receivables and investments in leases, loans receivable, rents receivable, and other receivables held by the Group are exposed to credit loss due to counterparties’ default and fluctuations in interest rates.

Investments in venture businesses, and securities and investment securities mainly consist of equity securities, debt securities and investments in partnerships. These securities are held to maturity, for capital gain or to promote business relationships, which are exposed to credit risk of issuers, interest rate risk and market risk, respectively.

Bank borrowings, corporate bonds and commercial papers are exposed to liquidity risk, i.e., the risk the Group cannot meet its contractual obligations in full on maturity dates for such reasons as the Group would be unable to access financial markets under certain circumstances. Furthermore, the Group uses funds based on variable rates, which are exposed to risk resulting from fluctuations in interest rates. In order to avoid such risk, the Group uses interest rate swaps for certain financing transactions.

Assets and liabilities denominated in foreign currencies are exposed to foreign currency risk. The Group manages each transaction to mitigate such risk by matching the amount of cash flows attributed to these assets and liabilities or by using currency swap contracts.

The Group uses hedging derivatives such as interest rate swaps, currency swaps and foreign exchange forward contracts. Moreover, credit derivatives could be used to avoid credit risk of assets held by the Group, if appropriate. Hedging derivatives are exposed to risk associated with fluctuations in market prices and risk attributable to counterparties’ default, but the Group considers that market risk and credit risk are extremely low because fair value of such derivatives is highly correlated with that of hedged item and the counterparty is limited to creditworthy financial institutions with limited risk of default.

(3) Risk Management for Financial Instruments

Credit risk management

The Group manages credit risk in accordance with internal rules for each business segment. For each credit transaction, the Group implements such procedures as performing ex-ante evaluation and ex-post monitoring and reevaluation of customer credit, securing collateral or guarantees, and addressing troubled receivables, if any. The Credit Analysis Division and the Credit Administration Division as well as relevant sales departments are responsible for such credit management. In addition, the Integrated Risk Management Office measures the credit risk as overall portfolio management of financial instruments, and regularly reports the results to the Integrated Risk Management Committee.

Liquidity risk management on financing

The Group manages its liquidity risk, taking market conditions into account, by adjusting the balance of financial products between long-term and short-term on a regular basis, using the ALM technique, by diversifying financing methods and counterparties and by obtaining credit facilities from various financial institutions.

Market risk management

Risks of interest rate fluctuations

The Finance Department comprehensively monitors interest rates and terms of financial assets and liabilities on a continual basis, using the ALM technique and performing gap analysis and sensitivity analysis, and reports the results to the Integrated Risk Management Committee on a regular basis.

Risk of exchange rate fluctuations

Each transaction denominated in foreign currency is managed to avoid foreign currency risk by matching the amount of cash flows attributed to these assets and liabilities or by using currency swap contracts.

Risks of price fluctuations

Securities and investment securities, which are exposed to risk of price fluctuations, are managed through periodic monitoring of their fair values and the financial positions of issuers.

Quantitative information on market risk

Installment sales receivable, lease receivables and investments in leases, loans receivable, long-term borrowings, corporate bonds and interest rate swaps are exposed to interest rate risk.

Effects of interest rate fluctuations on these financial instruments, which are measured based on the maximum interest rate change observed during a certain period after the zero-interest-rate policy ended, are used in quantitative analysis for managing interest rate risk. In measuring the effects, financial instruments subject to this analysis are classified into two kinds: those with fixed rates and with variable rates. Each of them is further broken down by maturity in order to apply relevant interest rate change corresponding to maturity. Increase in interest rate by one basis point (0.01%) as of March 31, 2016 and 2015 is estimated to decrease market value of the Group's net financial assets by ¥139 million (\$1,237 thousand) and ¥113 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, 2016 and 2015 are as follows. Financial instruments whose fair value cannot be reliably determined are not included in the following table; information on such instruments is presented in the table (b) below.

March 31, 2016	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 530,173	¥ 530,173	¥ -
Installment sales receivable	70,417		
Less: allowance for doubtful receivables (Note a)	(263)		
	<u>70,154</u>	<u>72,566</u>	<u>2,411</u>
Lease receivables and investments in leases	436,992		
Less: allowance for doubtful receivables (Note a)	(1,563)		
	<u>435,428</u>	<u>439,196</u>	<u>3,767</u>
Loans receivable	900,854		
Less: allowance for doubtful receivables (Note a)	(87)		
	<u>900,767</u>	<u>911,246</u>	<u>10,479</u>
Other loans receivable	55,561		
Less: allowance for doubtful receivables (Note a)	(0)		
	<u>55,560</u>	<u>55,671</u>	<u>111</u>
Rents receivable	20,875		
Less: allowance for doubtful receivables (Note a)	(76)		
	<u>20,799</u>	<u>20,946</u>	<u>146</u>
Credit card receivables	48,942		
Less: allowance for doubtful receivables (Note a)	(1,108)		
	<u>47,833</u>	<u>47,833</u>	<u>-</u>
Billing receivables	128,425		
Less: allowance for doubtful receivables (Note a)	(20,683)		
	<u>107,742</u>	<u>107,742</u>	<u>-</u>
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	106,077	106,077	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	3,233		
Less: allowance for doubtful receivables (Note a)	(3,200)		
	<u>32</u>	<u>32</u>	<u>-</u>
Total assets	<u>¥ 2,274,568</u>	<u>¥ 2,291,485</u>	<u>¥ 16,917</u>
Trade notes and accounts payable	¥ 20,702	¥ 20,702	¥ -
Short-term bank loans	43,283	43,283	-
Lease obligations	704	669	(35)
Accounts payable - other	434,456	434,462	5
Deposits received	145,780	145,780	-
Deposits received from shareholders, directors or employees	817,546	817,546	-
Bonds payable	223,782	241,096	17,314
Long-term borrowings	508,342	510,733	2,391
Total liabilities	<u>¥ 2,194,599</u>	<u>¥ 2,214,275</u>	<u>¥ 19,675</u>
Derivative transactions (Note b):			
Not qualifying for hedge accounting	¥ (59)	¥ (59)	¥ -
Qualifying for hedge accounting	10,496	10,496	-
Total derivative transactions	<u>¥ 10,437</u>	<u>¥ 10,437</u>	<u>¥ -</u>

March 31, 2016	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	\$ 4,705,121	\$ 4,705,121	\$ -
Installment sales receivable	624,933		
Less: allowance for doubtful receivables (Note a)	(2,336)		
	<u>622,597</u>	<u>644,001</u>	<u>21,404</u>
Lease receivables and investments in leases	3,878,170		
Less: allowance for doubtful receivables (Note a)	(13,876)		
	<u>3,864,293</u>	<u>3,897,732</u>	<u>33,438</u>
Loans receivable	7,994,806		
Less: allowance for doubtful receivables (Note a)	(775)		
	<u>7,994,031</u>	<u>8,087,032</u>	<u>93,001</u>
Other loans receivable	493,088		
Less: allowance for doubtful receivables (Note a)	(8)		
	<u>493,079</u>	<u>494,070</u>	<u>990</u>
Rents receivable	185,265		
Less: allowance for doubtful receivables (Note a)	(677)		
	<u>184,588</u>	<u>185,892</u>	<u>1,304</u>
Credit card receivables	434,345		
Less: allowance for doubtful receivables (Note a)	(9,841)		
	<u>424,504</u>	<u>424,504</u>	<u>-</u>
Billing receivables	1,139,736		
Less: allowance for doubtful receivables (Note a)	(183,558)		
	<u>956,178</u>	<u>956,178</u>	<u>-</u>
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	941,400	941,400	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	28,697		
Less: allowance for doubtful receivables (Note a)	(28,404)		
	<u>292</u>	<u>292</u>	<u>-</u>
Total assets	<u>\$ 20,186,087</u>	<u>\$ 20,336,226</u>	<u>\$ 150,138</u>
Trade notes and accounts payable	\$ 183,728	\$ 183,728	\$ -
Short-term bank loans	384,130	384,130	-
Lease obligations	6,250	5,938	(311)
Accounts payable - other	3,855,668	3,855,717	49
Deposits received	1,293,756	1,293,756	-
Deposits received from shareholders, directors or employees	7,255,474	7,255,474	-
Bonds payable	1,986,000	2,139,657	153,657
Long-term borrowings	4,511,382	4,532,604	21,222
Total liabilities	<u>\$ 19,476,389</u>	<u>\$ 19,651,007</u>	<u>\$ 174,618</u>
Derivative transactions (Notes b)			
Not qualifying for hedge accounting	\$ (528)	\$ (528)	\$ -
Qualifying for hedge accounting	93,157	93,157	-
Total derivative transactions	<u>\$ 92,628</u>	<u>\$ 92,628</u>	<u>\$ -</u>

- Notes:
- General allowance for doubtful receivables and special allowance for specific receivables corresponding to respective operating receivables are deducted.
 - Receivables and payables arising from derivative transactions are presented on a net basis.
 - The carrying amount as of March 31, 2016 represents receivables and payables arising from derivative transactions on a net basis. In the previous financial statements, the carrying amount of derivatives not qualifying for hedge accounting represented receivables and payables from derivative transactions on a net basis while carrying amount of derivatives qualifying for hedge accounting represented their contractual amounts. In the

financial statements for the year ended March 31, 2016, the carrying amounts of derivatives as of March 31, 2015 provided in the table below have been revised to conform with the current year presentation.

March 31, 2015	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 313,636	¥ 313,636	¥ -
Installment sales receivable	55,824		
Less: allowance for doubtful receivables (Note a)	(482)		
	<u>55,342</u>	<u>55,402</u>	<u>60</u>
Lease receivables and investments in leases	403,539		
Less: allowance for doubtful receivables (Note a)	(2,370)		
	<u>401,169</u>	<u>403,191</u>	<u>2,022</u>
Loans receivable	967,036		
Less: allowance for doubtful receivables (Note a)	(33)		
	<u>967,003</u>	<u>967,161</u>	<u>158</u>
Other loans receivable	55,135		
Less: allowance for doubtful receivables (Note a)	(0)		
	<u>55,135</u>	<u>55,226</u>	<u>91</u>
Rents receivable	19,568		
Less: allowance for doubtful receivables (Note a)	(108)		
	<u>19,460</u>	<u>19,571</u>	<u>111</u>
Credit card receivables	48,701		
Less: allowance for doubtful receivables (Note a)	(1,022)		
	<u>47,678</u>	<u>47,678</u>	<u>-</u>
Billing receivables	142,412		
Less: allowance for doubtful receivables (Note a)	(21,210)		
	<u>121,201</u>	<u>121,201</u>	<u>-</u>
Investments in venture businesses, securities and investment securities:			
Available-for-sale securities	71,127	71,127	-
Other under investments and other assets (receivables from companies in bankruptcy and reorganization)	4,562		
Less: allowance for doubtful receivables (Note a)	(4,550)		
	<u>11</u>	<u>11</u>	<u>-</u>
Total assets	<u>¥ 2,051,760</u>	<u>¥ 2,054,203</u>	<u>¥ 2,443</u>
Trade notes and accounts payable	¥ 22,341	¥ 22,341	¥ -
Short-term bank loans	34,000	34,000	-
Commercial papers	206,993	206,993	-
Lease obligations	822	786	(35)
Accounts payable - other	432,857	432,860	2
Deposits received	302,048	302,048	-
Deposits received from shareholders, directors or employees	427,112	427,112	-
Bonds payable	264,689	286,035	21,345
Long-term borrowings	323,045	323,757	711
Total liabilities	<u>¥ 2,013,911</u>	<u>¥ 2,035,935</u>	<u>¥ 22,024</u>
Derivative transactions (Note b):			
Not qualifying for hedge accounting	¥ (85)	¥ (85)	¥ -
Qualifying for hedge accounting	19,625	19,625	-
Total derivative transactions	<u>¥ 19,540</u>	<u>¥ 19,540</u>	<u>¥ -</u>

- 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 Lease receivables and Investments in Leases

The fair values of these items are calculated by discounting contractual cash flows using interest rates currently available to the Group for similar transactions. The carrying amount of installment sales receivable is presented net of unearned profit included in liabilities in the accompanying consolidated balance sheets. Similarly, the carrying amounts of lease receivables and investments in leases are presented net of lease payments received in advance.

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

Loans Receivable and Other 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 3 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 Bank Loans, Commercial Papers 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 12 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, 2016 and 2015 are summarized as follows. These instruments are excluded from investments in venture businesses, securities and investment securities in the above table.

Classification	Type	Carrying Amount		
		Millions of Yen		Thousands of U.S. Dollars
		2016	2015	2016
Investments in affiliates	Unlisted equity securities	¥ 3,691	¥ 3,767	\$ 32,764
Available-for-sale securities	Unlisted equity securities	4,119	7,466	36,555
	Investments in partnerships	799	955	7,095
	Total available-for-sale securities	¥ 4,918	¥ 8,421	\$ 43,650

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

March 31, 2016	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	¥ 530,173	¥ -	¥ -	¥ -	¥ -	¥ -
Installment sales receivable (Note a)	18,303	15,599	11,727	8,376	4,290	14,472
Lease receivables and investments in leases (Notes a and b)	128,832	110,004	91,687	62,385	36,027	47,909
Loans receivable (Note a)	298,687	84,230	100,571	136,415	71,675	209,274
Other receivables (Note a)	29,804	6,511	4,801	6,007	1,513	6,923
Rents receivable (Note a)	3,199	653	1,259	2,429	4,186	9,147
Credit card receivables (Note a)	48,942	-	-	-	-	-
Billing receivables (Note a)	128,425	-	-	-	-	-
Investments in venture businesses, securities and investment securities: Available-for-sale securities with contractual maturities (Note a)	25,811	2,733	9,792	10,910	2,148	28,533

March 31, 2016	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Cash and cash equivalents	\$ 4,705,121	\$ -	\$ -	\$ -	\$ -	\$ -
Installment sales receivable (Note a)	162,442	138,438	104,074	74,337	38,078	128,441
Lease receivables and investments in leases (Notes a and b)	1,143,346	976,257	813,697	553,648	319,732	425,178
Loans receivable (Note a)	2,650,757	747,517	892,537	1,210,647	636,096	1,857,250
Other receivables (Note a)	264,508	57,788	42,607	53,311	13,430	61,440
Rents receivable (Note a)	28,396	5,801	11,174	21,557	37,155	81,181
Credit card receivables (Note a)	434,345	-	-	-	-	-
Billing receivables (Note a)	1,139,736	-	-	-	-	-
Investments in venture businesses, securities and investment securities: Available-for-sale securities with contractual maturities (Note a)	229,068	24,255	86,909	96,825	19,068	253,228

- Notes: a. The amount does not include receivables from companies in bankruptcy and reorganization and receivables deemed to be uncollectible.
b. Lease payments to be received including interest are presented as lease receivables and investments in leases.

March 31, 2015	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	¥ 313,636	¥ -	¥ -	¥ -	¥ -	¥ -
Installment sales receivable (Note a)	14,007	12,234	10,087	6,678	4,135	10,513
Lease receivables and investments in leases (Notes a and b)	120,626	100,222	81,665	63,211	35,039	40,873
Loans receivable (Note a)	517,213	82,161	84,092	90,025	119,579	73,963
Other receivables (Note a)	17,074	11,958	6,305	4,385	5,904	9,507
Rents receivable (Note a)	3,143	748	1,367	2,170	3,353	8,784
Credit card receivables (Note a)	48,701	-	-	-	-	-
Billing receivables (Note a)	142,412	-	-	-	-	-
Investments in venture businesses, securities and investment securities: Available-for-sale securities with contractual maturities (Note a)	11,801	7,204	3,142	8,270	6,322	15,994

Notes: a The amount does not include receivables from companies in bankruptcy and reorganization and receivables deemed to be uncollectible.

b. Lease payments to be received including interest are presented as lease receivables and investments in leases.

(6) Maturity Analysis for Bonds Payable, Long-term Borrowings and Other Debts

The information on maturity analysis for bonds payable, long-term borrowings and other debts is presented in Note 6 on short-term and long-term debt.

12. DERIVATIVES

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, 2016 and 2015 (excluding hedging transactions) are as follows. Fair value is quoted based on the price information from the counterparty financial institution.

March 31, 2016	Millions of Yen			
	Contract Amount		Fair Value	Unrealized Gain/(Loss)
Total	Due after 1 Year			
Interest rate swaps (Pay fixed rate, receive variable rate)	¥ 741	¥ 741	¥ (7)	¥ (3)
Foreign exchange forward contracts selling position, U.S. Dollars	483	483	(52)	29
Total	¥ 1,225	¥ 1,225	¥ (59)	¥ 26

	Thousands of U.S. Dollars			
	Contract Amount			
	Total	Due after 1 Year	Fair Value	Unrealized Gain/(Loss)
<u>March 31, 2016</u>				
Interest rate swaps (Pay fixed rate, receive variable rate)	\$ 6,580	\$ 6,580	\$ (65)	\$ (32)
Foreign exchange forward contracts selling position, U.S. Dollars	4,293	4,293	(463)	263
Total	<u>\$ 10,873</u>	<u>\$ 10,873</u>	<u>\$ (528)</u>	<u>\$ 231</u>

	Millions of Yen			
	Contract Amount			
	Total	Due after 1 Year	Fair Value	Unrealized Gain/(Loss)
<u>March 31, 2015</u>				
Interest rate swaps (Pay fixed rate, receive variable rate)	¥ 741	¥ 741	¥ (3)	¥ (3)
Foreign exchange forward contracts selling position, U.S. Dollars	483	483	(81)	(81)
Total	<u>¥ 1,225</u>	<u>¥ 1,225</u>	<u>¥ (85)</u>	<u>¥ (85)</u>

Derivative instruments which qualify as hedging instruments as of March 31, 2016 and 2015 are summarized as follows. Fair value is quoted based on the price information from the counterparty financial institution.

	Hedged Item	Millions of Yen		
		Contract Amount		
		Total	Due after 1 Year	Fair Value
<u>March 31, 2016</u>				
Interest rate swaps (Note a) (Pay fixed rate, receive variable rate)	Long-term borrowings	¥ 123,993	¥ 117,466	¥ (3,451)
(Pay variable rate, receive fixed rate)	Bonds payable	5,634	5,634	106
Currency swaps (Note b) (Pay fixed rate, receive variable rate)	Long-term borrowings	47,417	47,417	(4,392)
(Pay fixed rate, receive fixed rate)	Bonds payable	68,388	68,388	18,233
Total		<u>¥ 245,433</u>	<u>¥ 238,906</u>	<u>¥ 10,496</u>

	Hedged Item	Thousands of U.S. Dollars		
		Contract Amount		
		Total	Due after 1 Year	Fair Value
<u>March 31, 2016</u>				
Interest rate swaps (Note a) (Pay fixed rate, receive variable rate)	Long-term borrowings	\$1,100,402	\$ 1,042,478	\$ (30,628)
(Pay variable rate, receive fixed rate)	Bonds payable	50,000	50,000	947
Currency swaps (Note b) (Pay fixed rate, receive variable rate)	Long-term borrowings	420,815	420,815	(38,978)
(Pay fixed rate, receive fixed rate)	Bonds payable	606,929	606,929	161,815
Total		<u>\$2,178,147</u>	<u>\$ 2,120,223</u>	<u>\$ 93,157</u>

		<u>Millions of Yen</u>		
<u>March 31, 2015</u>				
Interest rate swaps (Note a) (Pay fixed rate, receive variable rate)	Long-term borrowings	¥ 313,614	¥ 64,687	¥ (1,056)
	Loans receivable	36,557	26,557	(325)
Currency swaps (Note b)	Bonds payable	39,530	39,530	21,008
Total		<u>¥ 389,701</u>	<u>¥ 130,774</u>	<u>¥ 19,625</u>

- 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, 2016 and 2015 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Assets pledged as collateral:			
Lease receivables and investments in leases	¥ 1,729	¥ 6,200	\$ 15,347
Rents receivable	619	1,679	5,496
Leased assets	18,740	19,800	166,315
Total	<u>¥ 21,089</u>	<u>¥ 27,680</u>	<u>\$ 187,160</u>
Corresponding debt:			
Current portion of long-term borrowings	¥ 1,113	¥ 1,105	\$ 9,880
Other under current liabilities (Payables associated with securitization of receivables)	2,500	8,000	22,186
Long-term borrowings	13,442	14,596	119,295
Other under long-term liabilities (Long-term deposits received)	1	8	13
Total	<u>¥ 17,057</u>	<u>¥ 23,710</u>	<u>\$ 151,376</u>

As of March 31, 2016, the Group had ¥46 million (\$409 thousand) and ¥4,588 million (\$40,724 thousand) of notes receivable which was obtained for lease and installment sales, respectively.

14. COMMITMENTS AND CONTINGENCIES

As of March 31, 2016 and 2015, the Group had the following contingent liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Guarantee in ordinary course of business	¥ 9,597	¥ 4,390	\$ 85,172
Unexecuted loan commitments (Note)	993,591	965,878	8,817,819

Note: The Group enters into loan commitment agreements with customers. As of March 31, 2016 and 2015, loan commitments given to customers were ¥1,208,814 million (\$10,727,854 thousand) and ¥1,150,476 million, of which ¥215,222 million (\$1,910,034 thousand) and ¥184,597 million had been executed, respectively.

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

15. COMPREHENSIVE INCOME

Reclassification adjustments and related income tax effect on other comprehensive income for the years ended March 31, 2016 and 2015 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrealized gain/(loss) on available-for-sale securities:			
Gains/(losses) arising during the year	¥ (236)	¥ 257	\$ (2,029)
Reclassification adjustments	(2)	(198)	(23)
Amount before income tax effect	(239)	58	(2,122)
Income tax effect	105	39	934
Unrealized gain/(loss) on available-for-sale securities	(133)	98	(1,188)
Foreign currency translation adjustments:			
Gains/(losses) arising during the year	(364)	719	(3,234)
Foreign currency translation adjustments	(364)	719	(3,234)
Remeasurements of defined benefit plans:			
Gains/(losses) arising during the year	(4,897)	1,033	(43,462)
Reclassification adjustments	(99)	1	(886)
Amount before income tax effect	(4,997)	1,034	(44,348)
Income tax effect	1,542	(326)	13,692
Remeasurements of defined benefit plans	(3,454)	708	(30,656)
Share of other comprehensive income of affiliates accounted for using equity method:			
Gains/(losses) arising during the year	(105)	191	(934)
Total other comprehensive income/(loss)	<u>¥(4,058)</u>	<u>¥ 1,718</u>	<u>\$ (36,013)</u>

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.

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, 2016 and 2015. Assets are not allocated to reportable segments.

	Millions of Yen					
	2016					
	Reportable Segment					Total
Lease	Loan	Investment	Credit Card	Billing		
Revenue from external customers	¥ 176,014	¥ 9,280	¥ 2,525	¥ 5,200	¥ 190,438	¥ 383,460
Intersegment revenue or transfers	-	-	-	31,301	264	31,565
Total	¥ 176,014	¥ 9,280	¥ 2,525	¥ 36,502	¥ 190,702	¥ 415,025
Segment profit	¥ 12,643	¥ 3,497	¥ 1,191	¥ 2,510	¥ 5,442	¥ 25,284

	Thousands of U.S. Dollars					
	2016					
	Reportable Segment					Total
Lease	Loan	Investment	Credit Card	Billing		
Revenue from external customers	\$ 1,562,073	\$ 82,359	\$ 22,417	\$ 46,153	\$ 1,690,085	\$ 3,403,088
Intersegment revenue or transfers	-	-	-	277,791	2,344	280,135
Total	\$ 1,562,073	\$ 82,359	\$ 22,417	\$ 323,944	\$ 1,692,429	\$ 3,683,224
Segment profit	\$ 112,203	\$ 31,036	\$ 10,574	\$ 22,278	\$ 48,302	\$ 224,395

Millions of Yen							
2015							
Reportable Segment							
	Lease	Loan	Investment	Credit Card	Billing	Total	
Revenue from external customers	¥ 172,291	¥ 7,867	¥ 2,857	¥ 5,093	¥ 208,821	¥ 396,931	
Intersegment revenue or transfers	-	-	-	28,379	321	28,700	
Total	¥ 172,291	¥ 7,867	¥ 2,857	¥ 33,472	¥ 209,142	¥ 425,631	
Segment profit	¥ 12,942	¥ 4,649	¥ 1,590	¥ 2,424	¥ 3,768	¥ 25,376	

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
	2016	2015	2016
Revenue:			
Reportable segments total	¥ 415,025	¥ 425,631	\$ 3,683,224
Intersegment eliminations	(31,565)	(28,700)	(280,135)
Revenue in the consolidated statements of income	¥ 383,460	¥ 396,931	\$ 3,403,088
Segment profit:			
Reportable segments total	¥ 25,284	¥ 25,376	\$ 224,395
Corporate expenses (Note)	(8,765)	(8,466)	(77,789)
Operating income in the consolidated statements of income	¥ 16,519	¥ 16,910	\$ 146,606

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 about revenue by geographical area for the years ended March 31, 2016 and 2015 are omitted, as revenue from external customers in Japan exceeds 90% of consolidated revenue.

Information about property and equipment by geographical area as of March 31, 2015 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Property and equipment:			
Japan	¥ 26,606	¥ 28,054	\$ 236,122
Asia	10,318	11,508	91,577
Total	¥ 36,925	¥ 39,562	\$ 327,699

Information about revenue by major customer for the year ended March 31, 2016 is as follows:

	Revenue		Related Segments
	Millions of Yen	Thousands of U.S. Dollars	
NTT DOCOMO, INC.	¥ 85,457	\$ 758,409	Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION	47,077	417,797	Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	45,233	401,434	Lease and Billing

Information about revenue by major customer for the year ended March 31, 2015 is as follows:

	Revenue		Related Segments
	Millions of Yen		
NTT DOCOMO, INC.	¥ 97,976		Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION	49,834		Lease and Billing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	48,742		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 Group with NIPPON TELEGRAPH AND TELEPHONE CORPORATION, which had a 92.17% (direct) and 7.83% (indirect) ownership share in the Company in 2016 and 2015, as of and for the years ended March 31, 2016 and 2015 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Transactions:			
Acceptance of excess funds	¥ 17,154	¥ 85,244	\$ 152,243
Execution of loans	271,950	312,769	2,413,474
Account balances:			
Loans receivable	50,000	286,000	443,734
Deposits received from shareholders, directors or employees	177,796	4	1,577,887

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 11 and 10 other NTT Group companies as of and for the years ended March 31, 2016 and 2015, respectively, are summarized as follows:

	Millions of Yen		Thousands of
	2016	2015	U.S. Dollars
Transactions:			2016
Acceptance of excess funds	¥ 581,296	¥ 464,707	\$ 5,158,824
Execution of loans	469,932	283,736	4,170,502
Transactions related to transferred receivables	5,989,709	5,817,796	53,156,811
Billing-related revenue	181,930	200,226	1,614,579
Account balances:			
Billing receivables	19,105	19,512	169,557
Accounts payable - other	400,769	395,834	3,556,706
Deposits received	70,562	236,576	626,222
Deposits received from shareholders, directors or employees	631,739	171,282	5,606,495
Current portion of long-term deposits received from shareholders, directors or employees	-	240,000	-
Loans receivable	492,071	354,749	4,366,983

18. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2016 was approved at the Company's shareholders meeting held on June 17, 2016:

	Millions of Yen	Thousands of
		U.S. Dollars
Year-end cash dividends, ¥60,620.00 (\$537.98) per share	¥ 3,113	\$ 27,633

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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, 2016 and 2015, 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.

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 misstatement, 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 present fairly, in all material respects, the financial position of NTT FINANCE CORPORATION and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 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 17, 2016
Tokyo, Japan