

Message from the CFO



NTT will target improvements in corporate value through steady profit growth, enhanced shareholder returns, and increased efficiency in invested capital.

Akira Shimada
Representative Member of the Board
Senior Executive Vice President and Chief Financial Officer

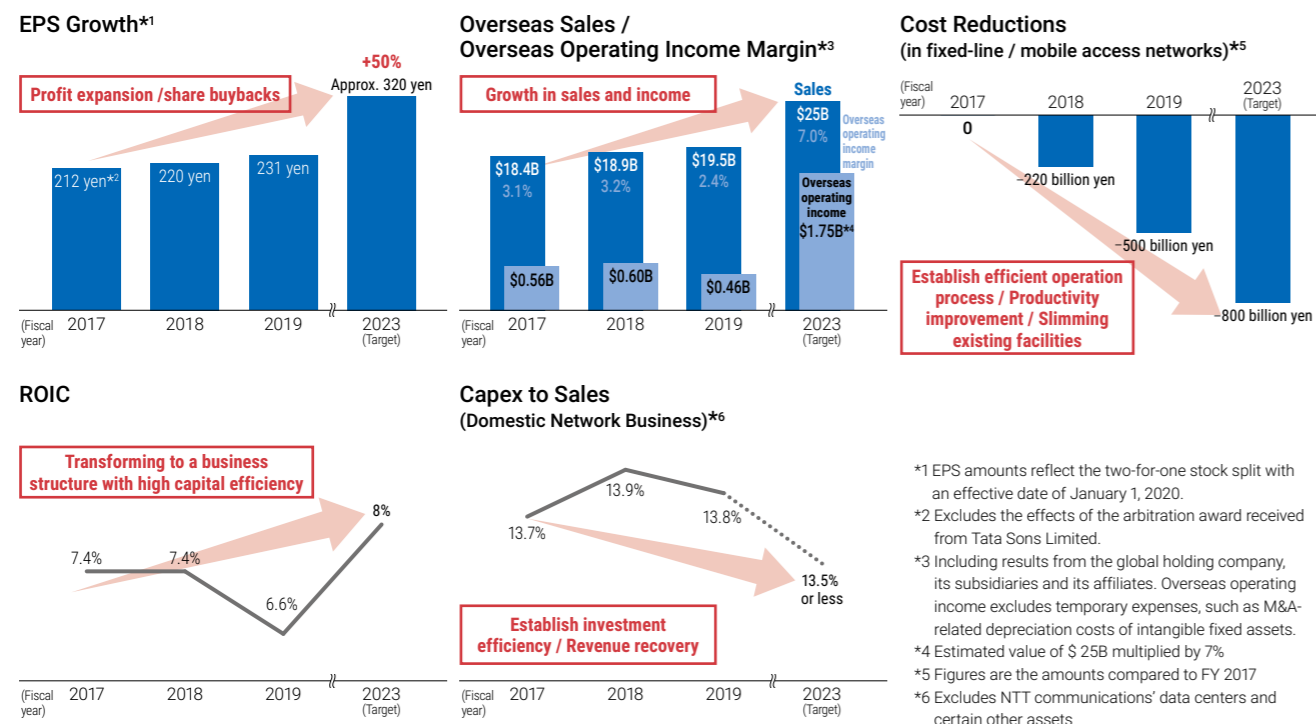
Medium-Term Financial Targets and Underlying Policies

NTT has previously set financial targets for earnings per share (EPS) growth designed to guide efforts to achieve steady profit growth and enhance shareholder returns, and we continue to focus on EPS as one of our main management indicators. Currently, we are aiming to achieve EPS growth of 50% from the fiscal year ended March 31, 2018, by the fiscal year ending March 31, 2024. Our primary means of raising EPS to accomplish this target will be pursuing steady profit growth, but we will also carry out share buybacks flexibly.

From the perspective of profit growth, we will strengthen the competitiveness of our global business, a pillar supporting our growth, and improve profit margins. Through this approach, we will look to achieve overseas sales of \$25.0 billion and an overseas operating profit margin of 7% in the fiscal year ending March 31, 2024. In our domestic business, meanwhile, we are targeting cost reductions pertaining to fixed-line and mobile access networks of at least ¥800.0 billion in comparison to the fiscal year ended March 31, 2018, by the fiscal year ending March 31, 2024. We will also target a capital expenditure to sales ratio of 13.5% or less for our domestic network business in the fiscal year ending March 31, 2022, a target we aim to achieve through further streamlining and productivity improvements in existing businesses.

NTT Group plans to aggressively develop its business in a manner oriented toward sustainable growth while maintaining financial discipline with an emphasis on capital efficiency. Accordingly, the "Your Value Partner 2025" medium-term management strategy has newly positioned return on invested capital (ROIC) among our financial targets with a target of 8% to be achieved in the fiscal year ending March 31, 2024.

Transition of Medium-Term Targets



Our medium-term financial targets will, of course, be incorporated into the evaluation indicators for NTT, the holding company. They will also be incorporated into the evaluation indicators for the operating companies under the holding company to entrench these targets into Groupwide strategies in order to drive more effective initiatives.

EPS

Performance Forecasts Accounting for COVID-19 Pandemic and Progress in Global Businesses

Progress toward our EPS target was more or less in line with our projections up until the fiscal year ended March 31, 2020. However, we had to account for the adverse impacts of the global COVID-19 pandemic when formulating forecasts for the fiscal year ending March 31, 2021. Accordingly, for this fiscal year, we are projecting a drop in revenue and increases in profit and EPS. In more specific terms, we expect a decline in sales of telecommunications equipment by NTT DOCOMO in Japan coupled with a drop in system integrator sales overseas, which will be particularly pronounced in the second half of the fiscal year. These factors will push down operating revenues by ¥350.0 billion and operating profit by ¥70.0 billion. We hope to achieve year-on-year growth in profit in the fiscal year ending March 31, 2021, despite these detractors, by compensating for the revenue decline through the downsizing of costs via means such as curtailing investments and through the improvement of operational efficiency via digital transformations.

The work styles and lifestyles we have embraced previously may see substantial change during and after the COVID-19 pandemic. At NTT Group, we view this change as an opportunity on which we look to capitalize to achieve ongoing profit growth in the fiscal year ending March 31, 2022, and beyond.

We will face significant challenges in our global business as we pursue profit growth. Seeking to surmount these challenges, we are implementing ongoing structural reforms centered on NTT Ltd. and NTT DATA. At NTT Ltd., and are undertaking a massive shift toward high-value-added, high-margin services. Through this shift, we aim to raise the ratio of total sales from these services from the 30% seen in the fiscal year ended March 31, 2019, to 50% in the fiscal year ending March 31, 2024. Steady progress is being made with this regard, and we forecast a 4-percentage point year-on-year increase in this ratio to 36% in the fiscal year ending March 31, 2021. At NTT DATA, earnings power is being augmented through the enhancement of digital offerings. The performance forecasts for NTT Ltd. and NTT DATA in the fiscal year ending March 31, 2021, are as follows.

- NTT Ltd.:** NTT Ltd. is forecast to achieve profitability. The profit reductions stemming from the COVID-19 pandemic are anticipated to be outweighed by the benefits of the shift toward high-value-added, high-margin services, and of cost reductions, including lower personnel and property expenses attributable to structural reforms. These benefits will contribute to a massive year-on-year increase in operating profit.
- NTT DATA :** NTT DATA is projected to post declines in both revenue and profit. In addition to the expected profit decline stemming from the COVID-19 pandemic, a one-time increase in strategic costs will be incurred to advance structural reforms, primarily in North America, for promoting digitization (enhancement of staff in digital-related fields, employee reeducation, resource optimization, office and data center consolidation, etc.).

FY2020 Forecast (Consolidated Revenues and Income)

	FY2019 Result	FY2020 Forecast	Year-on-Year	Released on August 11, 2020
Operating Revenues	¥11,899.4 billion	¥11,500.0 billion	(¥399.4 billion)	COVID-19 Impact (¥350.0 billion) Domestic: (¥180.0 billion) Overseas: (¥170.0 billion)
Operating Income	¥1,562.2 billion	¥1,590.0 billion	+¥27.8 billion	(¥70.0 billion) Domestic: (¥45.0 billion) Overseas: (¥25.0 billion)
Profit*1	¥855.3 billion	¥860.0 billion	+¥4.7 billion	
EPS*2	¥231	¥231	+¥0	

*1 Profit represents profit attributable to NTT, excluding noncontrolling interests.
*2 Amounts have been adjusted to reflect the two-for-one stock split with an effective date of January 1, 2020.

ROIC

Improvement of Invested Capital Efficiency through Receivable Liquidation and Other Means

NTT has proceeded to maintain ownership and practice in-house operation of access networks, network equipment, and a vast amount of other communications equipment in order to establish a communications network that spreads to every corner of Japan and supply reliable, high-quality communications services. Our telecommunications business will continue to function as our core business foundation going forward. However, we aim to move away from our antiquated business model that presumes asset ownership and to transition to management emphasizing cash flows. NTT also intends to diversify its portfolio by proactively developing new businesses targeting future growth. Accordingly, we will be downsizing our overall asset portfolio while securing cash flows in order to improve invested capital efficiency. These efforts will take the form of disposal of inefficient Company assets and idle equipment and curtailment of investments through equipment sharing. We thereby aim to create an asset portfolio that will allow for the cash generated through business activities to be invested in new businesses.

Specifically, we will liquidate receivables and shift lease assets off the balance sheet. We will also examine a wide range of measures for our urban solutions (real estate) and data center businesses, which are being rapidly developed as growth businesses. Potential measures include the utilization of real estate investment trusts and other funding schemes and property sales. In the data center business, for example, data center operation is the most essential part of our business activities; we do not necessarily need to own the buildings ourselves. From this perspective, we will actively develop our businesses in a manner that focuses on the balance of returns from assets as well as on EPS, ROIC, and other indicators, as opposed to overemphasizing asset scale.

Liquidation of Receivables

NTT DOCOMO's finance business had a total of ¥1.4 trillion in receivables, including credit card receivables and installment payment receivables from sales of mobile phones. In the fiscal year ended March 31, 2020, approximately ¥50.0 billion of these receivables was liquidated, and we intend to liquidate receivables on an even greater scale going forward based on funding needs.

Off-Balance Sheet Recording of Lease Business Assets

By transferring leasing businesses to NTT TC Leasing Co., Ltd., a joint venture between Tokyo Century Corporation and NTT, we succeeded in reducing interest-bearing debt by ¥1.2 trillion, which had the benefit of increasing ROIC by 0.5 percentage point.

COLUMN

Financial Risk Management

NTT manages financial risks through reliable and advantageous fund procurement based on procurement from Group companies and safe and efficient fund use centered on funding of Group companies.

The Company recognizes financial risks including significant interest rate risks, foreign exchange risks, and liquidity risks. Derivative transactions, such as interest rate swaps, currency swaps, and exchange contracts, are used to manage interest rate and foreign exchange risks and limit fluctuations in cash flows stemming from these risks. In regard to liquidity risks, the following measures are taken to prepare for unforeseen circumstances, such as the global COVID-19 pandemic.

• Yen-Denominated Provisions

The Company has increased the extent of its commitment line contracts with financial institutions from ¥30.0 billion to ¥300.0 billion, and our commercial paper issuance limit has been raised from ¥1.5 trillion to ¥2.0 trillion.

• Foreign Currency-Denominated Provisions

A portion of short-term U.S.-dollar denominated funds (approximately ¥200.0 billion) was converted to long-term funds. In addition, borrowing limits from financial institutions were increased (approximately ¥240.0 billion → approximately ¥480.0 billion) and funding sources were diversified (development of procurement schemes using funds from U.S. commercial paper market) as part of our efforts to secure on-hand liquidity.

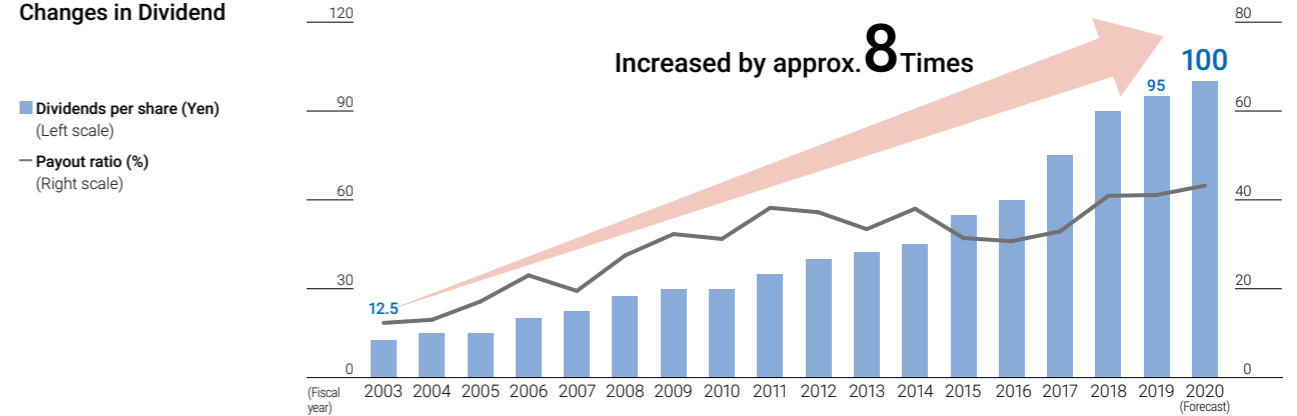
Reference

Shareholder Returns to Date

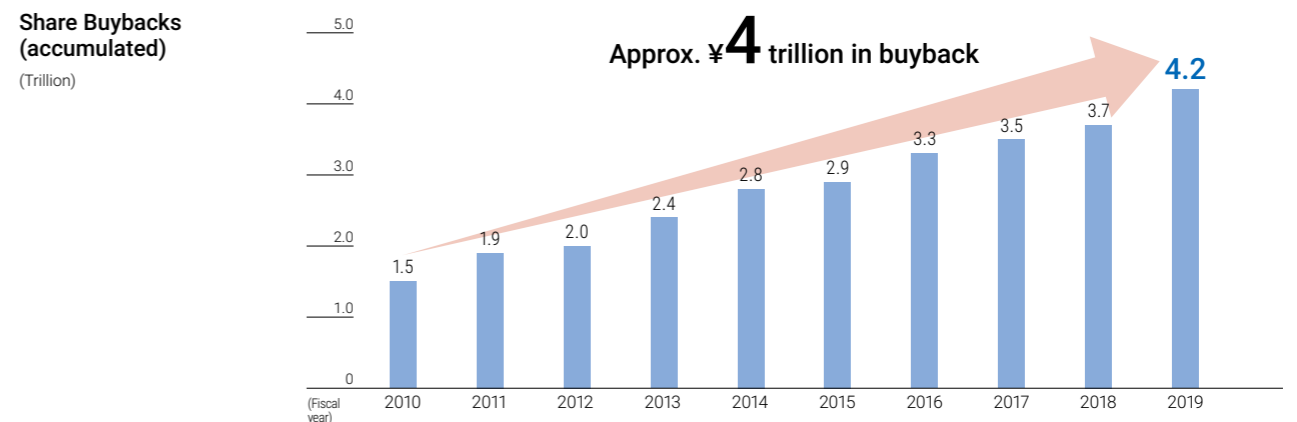
The enhancement of shareholder returns is among NTT's most important management issues. Our basic policy is to pursue ongoing increases in dividend policies, and flexible share buybacks are conducted to improve capital efficiency.

For the fiscal year ending March 31, 2021, NTT plans to issue dividend payments of ¥100 per share, an increase of ¥5 per share from the previous fiscal year, making for the 10th consecutive year of dividend increases. This amount will also represent an increase of roughly eightfold from the fiscal year ended March 31, 2004. Meanwhile, the Company conducted share buybacks totaling around ¥500.0 billion (approximately 100 million shares) in the fiscal year ended March 31, 2020, the largest buyback drive in the past decade, acquiring shares from the market and from government agencies. The aggregate total of shareholder buybacks conducted to date exceeds ¥4.0 trillion. Acquired shares of treasury stock are periodically cancelled, and the number of shares cancelled over the past 10 years has reached 30% of the total number of shares issued. These efforts have made large contributions to the growth of EPS, a main performance indicator of the medium-term management strategy.

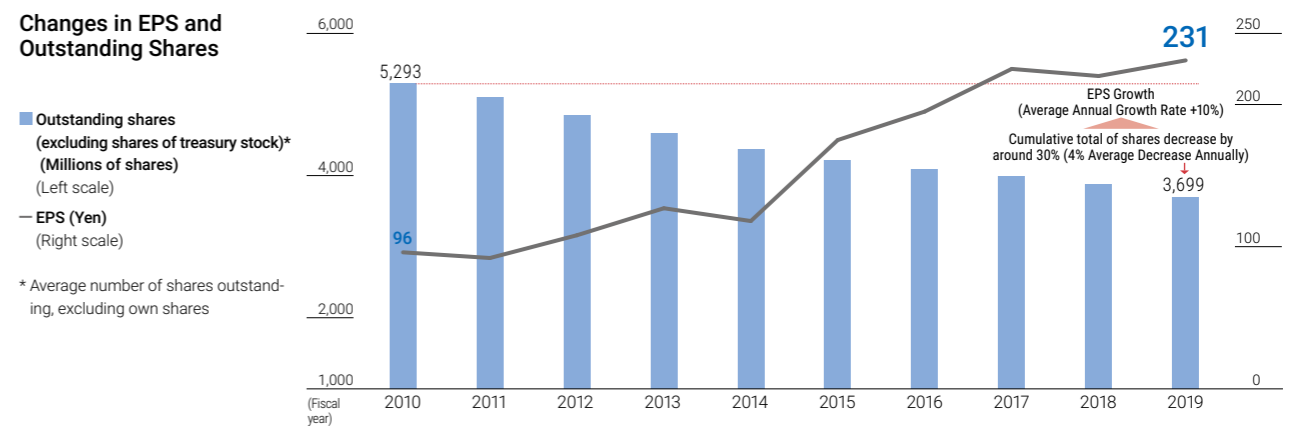
Changes in Dividend



Share Buybacks (accumulated)



Changes in EPS and Outstanding Shares



(Note1) Dividends per share, outstanding shares, and EPS have been adjusted to reflect the hundred-for-one stock split carried out on January 4, 2009, two-for-one stock split carried out on July 1, 2015, and two-for-one stock split carried out on January 1, 2020.
 (Note2) U.S. GAAP were applied for fiscal years up to and including the fiscal year ended March 31, 2018, while International Financial Reporting Standards (IFRS) have been applied for fiscal years from and including the fiscal year ended March 31, 2019.