

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 20-F

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g)
OF THE SECURITIES EXCHANGE ACT OF 1934**

or

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2017**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

or

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report: N/A

Commission file number 1-8910

NIPPON DENSHIN DENWA KABUSHIKI KAISHA

(Exact Name of Registrant as Specified in its Charter)

NIPPON TELEGRAPH AND TELEPHONE CORPORATION

(Translation of Registrant's Name into English)

JAPAN

(Jurisdiction of Incorporation or Organization)

OTEMACHI FIRST SQUARE, EAST TOWER, 5-1, OTEMACHI 1-CHOME, CHIYODA-KU, TOKYO 100-8116 JAPAN
(Address of Principal Executive Offices)

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(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common stock ("Shares")
American Depositary Shares ("ADSs"),
each of which represents one Share

New York Stock Exchange (until April 3, 2017)*
New York Stock Exchange (until April 3, 2017)

* Not for trading but only in connection with the registration of ADSs pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Common stock ("Shares")

American Depositary Shares ("ADSs"), each of which represents one Share

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Common stock

2,015,367,511 shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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In this annual report, except as otherwise specified, “NTT” refers to Nippon Telegraph and Telephone Corporation (hereinafter also sometimes referred to as the “registrant”), “NTT Group” refers to NTT, its subsidiaries and its affiliated companies and any of their respective predecessors in business, and “NTT Public” refers to Nippon Telegraph & Telephone Public Corporation, which operated the business of NTT prior to April 1985. “NTT East,” “NTT West” and “NTT Communications” refer to NTT’s three wholly-owned subsidiaries, Nippon Telegraph and Telephone East Corporation, Nippon Telegraph and Telephone West Corporation and NTT Communications Corporation, respectively. In addition, “Dimension Data” refers to Dimension Data Holdings plc, “NTT Plala” refers to NTT Plala Inc., “NTT DOCOMO” refers to NTT DOCOMO, INC., “NTT DATA” refers to NTT DATA CORPORATION, “NTT Urban Development” refers to NTT URBAN DEVELOPMENT CORPORATION, “NTT Finance” refers to NTT FINANCE CORPORATION and “NTT FACILITIES” refers to NTT FACILITIES, INC. The Government of Japan is sometimes referred to herein as the “Government.”

References to fiscal years are to 12-month periods commencing in each case on April 1 of the prior year and ending on March 31 of the year indicated. References to years not specified as being fiscal years are to calendar years.

In this annual report, except as otherwise specified, the financial information is presented according to generally accepted accounting principles in the United States, referred to as “U.S. GAAP.”

Under the Act on Nippon Telegraph and Telephone Corporation, etc. (“NTT Act,” Act No. 85 of December 25, 1984) and for Japanese reporting purposes, NTT calculates the percentage of its Shares owned by the Government based on the total number of issued Shares regardless of whether such Shares are outstanding for U.S. reporting purposes. In this annual report, where the percentage of total issued Shares differs from the percentage of outstanding Shares, the Government’s ownership of Shares is presented using both percentages.

PART I

ITEM 1—IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2—OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3—KEY INFORMATION

Selected Financial Data

The following selected financial data for each of the fiscal years ended March 31, 2013 through 2017 have been derived from, and should be read in conjunction with, NTT's audited consolidated financial statements. NTT's audited consolidated financial statements as of March 31, 2016 and 2017, and for each of the three fiscal years ended March 31, 2015, 2016 and 2017, appear elsewhere in this annual report.

SELECTED CONSOLIDATED STATEMENT OF INCOME DATA

**Nippon Telegraph and Telephone Corporation
and Subsidiaries**

	Years ended March 31,				
	2013	2014	2015	2016	2017
	(in millions of yen)				
Operating revenues	¥ 10,700,740	¥ 10,925,174	¥ 11,095,317	¥ 11,540,997	¥ 11,391,016
Operating expenses	9,498,772	9,711,521	10,010,751	10,192,848	9,851,227
Operating income	1,201,968	1,213,653	1,084,566	1,348,149	1,539,789
Other income (expenses)*1	(4,321)	80,542	(17,937)	(18,890)	(12,020)
Income before income taxes and equity in earnings (losses) of affiliated companies*1	1,197,647	1,294,195	1,066,629	1,329,259	1,527,769
Income tax expenses*1	473,954	486,546	397,349	354,825	468,370
Equity in earnings (losses) of affiliated companies*1	(16,093)	(50,792)	5,889	5,772	(21)
Net income*1	707,600	756,857	675,169	980,206	1,059,378
Less—Net income attributable to noncontrolling interests*1	185,668	171,384	157,103	242,468	259,249
Net income attributable to NTT*1	¥ 521,932	¥ 585,473	¥ 518,066	¥ 737,738	¥ 800,129
	2013	2014	2015	2016	2017
	(in yen, except share amounts)				
Per Share of common stock:					
Net income attributable to NTT*1*2	¥ 215.34	¥ 254.61	¥ 236.85	¥ 350.34	¥ 390.94
Cash dividends, applicable to earnings for the year*2	¥ 80.00	¥ 85.00	¥ 90.00	¥ 110.00	¥ 120.00
Average number of Shares outstanding*2	2,423,761,538	2,299,516,428	2,187,360,018	2,105,782,828	2,046,678,144

*1 As a result of the application of the equity method for NTT Group's investment in Philippine Long Distance Telephone Company (currently known as PLDT Inc.) from the beginning of the three months ended June 30, 2013, the above figures for "Other income (expenses)," "Income before income taxes and equity in earnings (losses) of affiliated companies," "Income tax expenses," "Equity in earnings (losses) of affiliated companies," "Net income," "Less—Net income attributable to noncontrolling interests," "Net income attributable to NTT" and "Net income attributable to NTT Per Share of common stock" for the fiscal year ended March 31, 2013 have been revised retrospectively.

*2 NTT conducted a two-for-one stock split of its common stock with an effective date of July 1, 2015. Figures for "Net income attributable to NTT," "Cash dividends, applicable to earnings for the year" and "Average number of Shares outstanding" under "Per Share of common stock" listed above have been adjusted to reflect the impact of the stock split as if the stock split had occurred at the beginning of the first fiscal year listed above.

SELECTED CONSOLIDATED BALANCE SHEET DATA

Nippon Telegraph and Telephone Corporation and Subsidiaries

	As of March 31,				
	2013	2014	2015	2016	2017
	(in millions of yen)				
Current assets	¥ 4,669,288	¥ 4,861,011	¥ 4,957,228	¥ 5,426,979	¥ 5,312,423
Property, plant and equipment (net) . .	9,776,687	9,839,688	9,801,470	9,551,921	9,719,021
Total assets*	19,549,067	20,284,949	20,702,427	21,035,931	21,250,325
Current liabilities	3,499,389	3,676,824	3,721,688	3,741,128	4,131,393
Long-term liabilities	5,527,675	5,657,407	5,902,657	6,009,624	5,560,357
Capital stock (common stock plus additional paid-in capital)	3,765,562	3,764,960	3,784,673	3,817,510	3,799,985
NTT shareholders' equity*	8,231,439	8,511,354	8,681,860	8,833,806	9,052,479
Total equity*	¥10,522,003	¥10,924,806	¥11,049,810	¥11,240,082	¥11,507,756

* As a result of the application of the equity method for NTT Group's investment in Philippine Long Distance Telephone Company (currently known as PLDT Inc.) from the beginning of the three months ended June 30, 2013, the above figures for "Total assets," "NTT shareholders' equity" and "Total equity" for the fiscal year ended March 31, 2013 have been revised retrospectively.

Dividends

NTT has paid dividends on Shares semiannually in respect of each fiscal year since its founding in 1985. NTT's Board of Directors (the "Board") recommends a year-end dividend, which is subject to approval by shareholders at the ordinary general meeting of shareholders and by the Minister of Internal Affairs and Communications (the "Minister"). Immediately following such approvals, NTT distributes dividends to shareholders or registered pledgees of shares entered or recorded on the register of shareholders and shareholders or pledgees of shares for whom all or part of their Shares were not entered or recorded in the register of shareholders pursuant to Article 6 of the NTT Act as of the preceding March 31 in proportion to their respective holdings of Shares at that date. Year-end dividends may be distributed either in cash or, with shareholder approval, in kind. In addition to year-end dividends, NTT may make cash distributions from its retained earnings to its shareholders or registered pledgees of shares entered or recorded on the register of shareholders and shareholders or pledgees of shares for whom all or part of their shares were not entered or recorded in the register of shareholders pursuant to Article 6 of the NTT Act as of September 30 of each year (interim dividends) provided that approvals are granted by its Board and the Minister.

For NTT's dividend policy, see "Item 8—Financial Information—Consolidated Statements and Other Financial Information—Dividend Policy."

The following table lists the respective shareholder (year-end dividend) and Board (interim dividend) approval dates, as applicable, payment dates and amount of dividends paid by NTT (expressed in Japanese yen and the U.S. dollar equivalents, which were calculated based on the Noon Buying Rate (as defined below under “—Exchange Rate Information”) for Japanese yen on the last date of each period set forth below) for each of the six-month periods indicated.

<u>Record Date/Six Months Ended</u>	<u>Approval Date</u>	<u>Payment Date</u>	<u>Dividends per Share*</u> (in yen)	<u>Dividends per Share*</u> (in U.S. dollars)
September 30, 2012	November 8, 2012	December 10, 2012	¥40	\$0.51
March 31, 2013	June 25, 2013	June 26, 2013	¥40	\$0.42
September 30, 2013	November 8, 2013	December 9, 2013	¥40	\$0.41
March 31, 2014	June 26, 2014	June 27, 2014	¥45	\$0.44
September 30, 2014	November 7, 2014	December 8, 2014	¥45	\$0.41
March 31, 2015	June 26, 2015	June 29, 2015	¥45	\$0.38
September 30, 2015	November 6, 2015	December 7, 2015	¥50	\$0.42
March 31, 2016	June 24, 2016	June 27, 2016	¥60	\$0.53
September 30, 2016	November 11, 2016	December 12, 2016	¥60	\$0.59
March 31, 2017	June 27, 2017	June 28, 2017	¥60	\$0.54

* NTT conducted a two-for-one stock split of its common stock with an effective date of July 1, 2015. The figures for “Dividends per Share” listed above have been adjusted to reflect the impact of the stock split as if the stock split had occurred at the beginning of the first fiscal year listed above.

See Note 16 to the Consolidated Financial Statements for a discussion of the Companies Act of Japan (the “Companies Act”) with respect to dividends.

Both the payment and the amount of dividends are subject to the level of NTT’s earnings, NTT’s financial condition and other factors, including applicable Government regulatory actions and approval by shareholders and the Board, as applicable, and the Minister.

Under Japanese foreign exchange controls currently in effect, dividends paid on Shares held by non-residents of Japan may be converted into any foreign currency and repatriated abroad. Under the terms of the deposit agreement pursuant to which American Depositary Receipts (“ADRs”), which evidence ownership interests in ADSs, are issued by JPMorgan Chase Bank, N.A., as depositary (the “Depositary”), the Depositary is required, to the extent that in its judgment it can convert Japanese yen into U.S. dollars on a reasonable basis and transfer the resulting dollars to the United States, to convert all cash dividends that it receives in respect of deposited Shares into U.S. dollars and to distribute amounts received (after deduction of applicable withholding taxes and expenses of the Depositary) to the holders of ADRs. See “Item 10—Additional Information—Exchange Controls and Other Limitations Affecting Security Holders.”

For a discussion of the tax treatment of dividends paid to U.S. holders of ADSs, see “Item 10—Additional Information—Taxation.”

Exchange Rate Information

In this annual report, all amounts are expressed in Japanese yen (“¥” or “yen”), except as otherwise specified.

On June 9, 2017, the Noon Buying Rate was US\$1 = ¥110.61.

The following table sets forth, for the fiscal periods indicated, certain information concerning the exchange rates for Japanese yen and U.S. dollars based on the noon buying rate in New York City for cable transfers payable in Japanese yen as announced for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"):

Fiscal Years Ended March 31	High⁽¹⁾	Low⁽¹⁾	Average⁽²⁾	Period end⁽³⁾
			(yen per dollar)	
2013	94.16	77.92	83.26	94.16
2014	105.25	97.52	100.46	102.98
2015	119.96	101.28	110.78	119.96
2016	123.98	112.42	120.13	112.42
2017	116.78	101.21	108.31	111.41
Months of 2017	High⁽⁴⁾	Low⁽⁴⁾	Average⁽⁵⁾	Period end⁽⁶⁾
January	117.68	112.72	114.87	112.72
February	114.34	111.74	112.91	112.06
March	115.02	110.48	112.92	111.41
April	111.52	108.40	110.09	111.44
May	114.19	110.68	112.24	110.71
June (through June 9, 2017)	111.24	109.34	110.26	110.61

- (1) The highest and lowest of the Noon Buying Rates on the last business day of each month during the relevant year.
- (2) The average of the Noon Buying Rates on the last business day of each month during the relevant year.
- (3) The Noon Buying Rates on the last business day of each relevant year.
- (4) The highest and lowest of the Noon Buying Rates of each business day in the relevant month/period.
- (5) The average of the Noon Buying Rates of each business day in the relevant month/period.
- (6) The Noon Buying Rates on the last business day of each relevant month/period.

Risk Factors

In addition to the other information contained in this annual report, prospective investors should carefully consider the risks described below related to NTT Group's business environment, business strategy and operations, regulations to which NTT is subject and NTT's relationship with the Government. Additional risks not currently known to NTT or that NTT now deems immaterial may also impair NTT Group's business operations. This annual report also contains forward-looking statements that involve risks and uncertainties. NTT Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including the risks NTT Group faces as described below and elsewhere in this annual report.

Risks associated with the business environment and NTT Group's corresponding business strategies

NTT Group's business may be affected by both the global and Japanese economic situation.

NTT Group has operations all over the world. An economic slowdown or deceleration in the economic growth of any of these regions may have an adverse effect on the demand for the services that NTT Group provides or on its operations.

NTT Group also owns investment securities and other financial assets. If their asset value were to decline because of a recession in the stock and other financial markets, the resulting impairment losses may adversely affect NTT Group's results of operations. NTT Group pension investments may also be adversely affected by the global and Japanese economic situation.

In addition, although NTT Group evaluates its means of capital procurement, including issuing corporate bonds and obtaining loans, any substantial fluctuations in the financial markets may lead to increases in NTT Group's financing costs.

As a result, NTT Group's results of operations and financial condition may be adversely affected. In response to these risks, NTT Group established a risk management policy, and in accordance with this policy, hedges risks using derivative transactions including forward exchange contracts. In addition, NTT Group is working to diversify its procurement procedures and to secure low-interest and stable financing.

However, there can be no assurance that NTT Group's efforts will ultimately prove to be successful.

NTT Group's operating revenues may suffer from changes in market structure and increased competition.

With the growing popularity of smartphones, tablets and high-speed wireless broadband services, the efficient use of signals and low latency, with specifications formulated by the 3rd Generation Partnership Project, the use of cloud services, AI, Big Data and IoT ("Internet of Things," the concept that all things are connected wirelessly and can be controlled via the Internet) is expanding. At the same time, the structure of the telecommunications services market is changing dramatically as various new stakeholders join telecommunications operators in the market, services provided by over-the-top content ("OTT") (a content distribution service utilizing other companies' communications infrastructure, allowing a service provider to distribute services without owning its own communications infrastructure) providers expand, and competition increases on a global level. Additionally, the combination of fixed and mobile telecommunications services has accelerated the development of FMC (fixed-mobile convergence) services. Competition remains active among telecommunications providers, and the competitive environment in which NTT Group operates is becoming more rigorous.

NTT Group expects the solutions business to be a major area of growth in the information services market, and hardware vendors and other players are also focused on this business. Moreover, NTT Group conducts a

variety of business activities in markets outside of the information and communications sector, and in each market, intense competition resulting from structural changes is increasing.

If NTT Group is unable to respond appropriately to increased competition and other changes in the structure of the markets in which it operates, its operating revenues may decline. In the information communications market, NTT Group's results of operations and financial condition could still be adversely affected if, despite these efforts, the number of subscribers that NTT Group acquires or retains fails to meet expected levels or if subscription ratios for various fee/discount services, trends in the number of subscription transfers to flat-rate services, or other initiatives do not proceed as expected.

Moreover, in the information services market, the growth of information service companies in rapidly developing nations, such as India and China, is bringing about global competition. Intensified competition resulting from new competitors' aggressive market entry may have an adverse effect on NTT Group's results of operations and financial condition.

Furthermore, it is possible that each of NTT Group's businesses in other markets will fail to achieve forecasted revenues, which may result in an adverse effect on NTT Group's results of operations and financial condition.

In response to these risks, NTT Group implemented measures to accelerate its self-transformation as a "Value Partner" and worked to place the entire NTT Group towards a profit growth track based on the medium-term management strategy "Towards the Next Stage 2.0" formulated and announced in May 2015. Specifically, NTT Group is seeking to expand and establish its global business as a cornerstone of its business operations, promoting efforts to enhance profitability of its domestic network businesses, and creating new markets through the expansion of its B2B2X businesses.

However, there can be no assurance that NTT Group's efforts will ultimately prove to be successful.

NTT Group's growth in its global business may be lower than anticipated.

NTT Group is expanding its global business as a cornerstone of its operations, and has also implemented initiatives to accelerate profit creation in this area. However, if these efforts do not progress as anticipated, or the cloud services market does not grow as anticipated, or revenues do not grow as expected due to increased competition or other factors, NTT Group's results of operations and financial condition may be adversely affected.

In response to these risks, and in order to deliver consistent growth of its overseas business operations, NTT Group will strengthen its sales force and marketing efforts, such as by expanding its global accounts and further promoting its up-selling and cross-selling efforts, while strengthening the entire NTT Group's services and products. In addition, stringent cost-efficiency initiatives are also underway in each of the Group's companies to, among other things, improve efficiency, optimize services and operations, and lower procurement costs.

NTT Group also monitors the progress of these initiatives on a regular basis and responds to any related developments promptly when the need arises.

However, there can be no assurance that NTT Group's efforts will ultimately prove to be successful.

NTT Group may not achieve anticipated cost savings.

NTT Group is working to generate profits by increasing capital expenditure efficiencies and reducing costs in the domestic fixed-line and mobile communications markets. However, it is possible that NTT Group will be unable to fully achieve the anticipated optimization of its capital expenditures or reductions in sales expenses,

facility-related costs, and personnel and other costs due to changes in the competitive environment or due to the current state of progress in streamlining equipment or general business operations. Any such failure to achieve intended cost reductions could adversely impact NTT Group's results of operations and financial condition.

In response to these risks, and to improve capital expenditure efficiencies, NTT Group is working to simplify and streamline the network in each company, as well as further its efficiency in using its existing facilities and reduce procurement costs. Efforts are also being made to promote standardization by utilizing the latest technology. Meanwhile, NTT Group is continuously working to reduce costs and is working to ensure simple yet highly productive business operations based on initiatives such as the conversion to the B2B2X model.

NTT Group also monitors the progress of these initiatives on a regular basis and responds to any related developments promptly when the need arises.

However, there can be no assurance that NTT Group's efforts will ultimately prove to be successful.

NTT Group's international and domestic investments, acquisitions, alliances and corporate collaborations may not be successful, or NTT Group may be unable to exert the necessary control over its investments.

NTT Group engages in joint ventures, alliances and collaborations, as well as acquisitions and other strategic investments to expand its global business operations in particular in response to changes in market structure and customers' needs. However, NTT Group may not be able to maintain or enhance the value or financial performance of, or achieve sufficient synergies with, the domestic or overseas operations in which it has invested or agreed to invest or that it may in the future acquire. In addition, there may be occasions when NTT Group will suffer potential losses resulting from the dissolution or disposition of its investments, partnerships or other cooperative initiatives.

Furthermore, the recent increase in the number of foreign subsidiaries within NTT Group may result in increased fragmentation within the group and render a common understanding difficult to achieve. There may be occasions when it is difficult for NTT to exert the control over its overseas subsidiaries necessary to oversee their business and operations. In addition, there is a risk that factors related to cross-border business, such as legal restrictions relating to investment and competition, differences in tax systems, differences in business customs including contract practices, labor relations, and international politics, may pose challenges to NTT Group's management of its overseas business activities. If such risks materialize, NTT Group's results of operations and financial condition may be adversely affected.

In response to these risks, NTT Group is proactively striving to expand its global business operations, and has worked to achieve expected returns from these endeavors by carrying out periodic post-acquisition monitoring of its investments. In addition, NTT Group is taking initiatives to enhance its group governance and risk management.

However, there can be no assurance that NTT Group's efforts will ultimately prove to be successful.

NTT Group may be unable to obtain the licenses for third-party intellectual property necessary for the operation of its business, may be subject to claims related to the infringement of the intellectual property from other companies, or may be unable to protect its own intellectual property rights, all of which could adversely affect its business operations and financial position.

In order for NTT Group and its business partners to carry out their business operations, they at times need to obtain licenses and other rights to use the intellectual property and other rights of third parties. NTT Group and its business partners have entered into the necessary intellectual property licenses, and based on their experience

as well as industry practice, NTT Group believes that it will continue to be able to obtain such licenses on reasonable terms. However, if NTT Group is unable to reach or maintain agreements with the holders of such rights on commercially acceptable terms or at all, NTT Group and its business partners may not be able to provide certain technologies, products or services to its customers.

Further, as NTT Group's global business expands, particularly through overseas acquisitions, claims of intellectual property infringement and other claims against NTT Group, particularly by foreign corporations in jurisdictions in which it has completed acquisitions, may increase as it develops new products, services and technologies, and acquires companies that may be subject to ongoing or future intellectual property litigation.

If NTT Group is subject to claims of infringement of intellectual property rights, it may be required to expend considerable time and costs to reach a resolution. If such claims are determined adversely to NTT Group, it may be required to pay substantial damages or royalties to third parties, or may be subject to a temporary or permanent injunction preventing certain NTT Group companies from offering certain products or services and required to develop non-infringing products or technologies, which could result in a loss of revenues from businesses related to such rights. Further, any improper use by third parties of NTT Group's intellectual property and other rights could result in a decrease in NTT Group's contemplated license revenues and compromise NTT Group's competitive advantage.

The occurrence of any of these risks could adversely affect NTT Group's results of operations and financial condition.

In response to these risks, NTT Group strategically acquires intellectual property rights, and periodically conducts assessments of intellectual property rights, including measures to properly identify intellectual property rights held by NTT Group and by third parties.

However, there can be no assurance that NTT Group's efforts will ultimately prove to be successful.

NTT Group may be unable to hire or retain necessary personnel, which could have an adverse effect on NTT Group's results of operations and financial condition.

A number of companies both in Japan and abroad have entered the information and telecommunications market, in which the diversity and sophistication of services and technology has rapidly increased, and where changes in the market, with a focus on cloud services in particular, are expected to accelerate even further going forward. In this environment, NTT Group's ability to hire and retain highly skilled personnel significantly affects the success of its business. If the hiring or retention of such key, highly skilled personnel by NTT Group does not proceed as expected, it could adversely affect NTT Group's ability to develop new technologies, design new products, enhance its existing products and execute its growth strategy, which could negatively impact its results of operations and financial condition.

In response to these risks, NTT Group implemented measures to strengthen employee training, in addition to providing training in collaboration with the government, other businesses and educational institutions. In addition, NTT Group works to understand each employee's work responsibilities, work environment, compensation and benefits and career goals by arranging regular meetings with employees, to enable NTT Group to implement preventive measures promptly as necessary to retain its employees.

However, there can be no assurance that NTT Group's efforts will ultimately prove to be successful.

Risks associated with business management

Cyberattacks could cause service interruptions or cause the quality of NTT Group's service to decline, which may affect NTT Group's results of operations and financial condition.

In recent years, as threats related to information security have become increasingly sophisticated and diversified, causing incidents such as damage due to cyberattacks and information leaks to emerge as social problems, developing information security countermeasures for smartphones, cloud services and other new ICT services has become an increasing concern. Given these circumstances, service interruptions or disruptions in the quality of NTT Group's services due to cyberattacks, such as targeted attacks or unauthorized access of NTT Group's communication networks, servers or other equipment, or the leakage, tampering or loss of information due to intrusions into company networks, could occur, which could harm NTT Group's credibility and corporate image and thereby adversely affect NTT Group's results of operation and financial condition.

In response to these risks, NTT Group has been promoting the introduction of the latest research results, continuously strengthening network security, and strengthening its efforts to train highly-skilled personnel in the security field.

However, there can be no assurance that NTT Group's efforts will ultimately prove to be successful.

System disruptions, network disruptions, disruptions to business operations or issues with system architecture that occur as a result of natural disasters may affect NTT Group's results of operations and financial condition.

NTT Group has operations both domestically and abroad, and supports society and business activities through its communications networks and information systems. In addition, NTT Group provides a multitude of services that serve as necessary lifelines that ensures people's safety in their everyday lives.

With respect to the provision of these services, natural disasters such as earthquakes, tsunamis, typhoons and floods, pandemics such as new strains of influenza, and other issues including a larger-than-expected increase in telecommunication traffic, terrorism, armed action, regional conflict and various other events could cause system and network failure or threaten the safety of NTT Group employees. As a result, there may be occasions when disruptions in NTT Group's business operations make it impossible to provide reliable services, which may lead to NTT Group being held liable for related damages, potentially damaging NTT Group's credibility and corporate image.

A large-scale disaster in particular could not only severely damage NTT Group's telecommunications networks, but could also harm NTT Group employees or cause damage to systems that could take a long time to restore, and the resulting emergency electricity use restrictions could hinder NTT Group's ability to provide reliable services. These events may lead to reductions in income and substantial repair costs.

In response to these risks, NTT Group has implemented a variety of measures, including strengthening the durability and water resistance of exchange offices, re-assessing its transmission lines, and making capital investments in its network facilities to strengthen network resilience, accelerate response time in the event of malfunctions and conduct safety confirmation drills for its employees in preparation for disasters. Through these various efforts, NTT Group is taking steps towards ensuring safe and secure operations of its networks and systems which are essential to the provision of services.

NTT Group also provides and delivers systems and services to customers in the system integration business, which typically operates under a service contract model in which services are completed from the receipt of orders through the delivery dates. As a result of this model, NTT Group generally assumes full contractual responsibility at all stages, but there is a possibility that a deviation from initial estimates or problems in project management at the development stage could result in cost overruns or losses due to delivery delays.

In response to these risks, for projects that are above a certain size, NTT Group has a review committee review cost estimates and the feasibility of project plans, and also monitors the progress of projects after they have been commissioned.

However, there can be no assurance that NTT Group's efforts will ultimately prove to be successful.

NTT's reputation and credibility may be affected by fraud or misconduct in Japan or abroad, or by inappropriate use or leaks of confidential business information and personal information.

NTT Group is subject to a wide variety of laws and regulations, as the scope of its business encompasses a variety of products and services both in Japan and abroad. As a result, some of NTT Group's business activities require licenses, notifications, and permit approvals. In addition, it is possible that NTT Group's growing business operations, especially outside of Japan, could be subject to additional burdens stemming from, among other things, the local rules and regulations of the countries in which NTT operates, or the lack thereof, the unpredictable nature of commercial and judicial interpretations of such local laws, the adoption of new laws and the revision of existing laws. With respect to laws and regulations, it may not always be possible to eliminate compliance risk and reputational risk from loss of credibility, including, for example, in the case of an employee's improper personal behavior. The occurrence of any of the risks described above could adversely affect NTT Group's business, including its reputation and credibility, as well as NTT Group's ability to obtain new subscribers or its eligibility to secure governmental contracts, which could in turn adversely affect NTT Group's results of operations and financial condition.

In response to these risks, based on NTT Group's understanding that legal compliance is an extremely important corporate responsibility, NTT Group is working towards further strengthening its compliance systems in light of the recent tightening of bribery and anti-corruption laws in foreign countries, particularly the United States and the United Kingdom.

There is increasing societal demand to ensure the protection of confidential information, such as customers' personal information, as well as increasing requirements to protect such information from a legal standpoint. However, given the further sophistication of criminal activities aimed at obtaining personal information and other confidential information, it is possible that NTT Group will be unable to eliminate the risk of a leak or misuse of confidential information.

In response to these risks, NTT Group has historically made efforts to protect confidential information, such as its customers' personal information, and NTT Group has also implemented the "NTT Group Information Security Policy," which requires enhanced internal information management, training and awareness-raising for officers and employees. NTT Group expects to continue being able to ensure the proper management of confidential information in accordance with this policy.

However, there can be no assurance that NTT Group's efforts will ultimately prove to be successful.

Misuse of products and services offered by NTT Group may have an adverse impact on NTT Group's credibility and corporate image and could expose NTT Group to liability.

NTT Group's products and services may be inappropriately used by users. For example, if cybercrimes, such as unsolicited bulk e-mails, illegal money transfers made through online banking, or bank transfer scams, are perpetrated using NTT Group's services, or if NTT Group customers experience incidents of unsolicited bulk e-mails being sent through its servers, NTT Group customers may be harmed as a result of these actions. Further, there has been a wide range of debate regarding minors' access to illegal or harmful websites, and the effectiveness of filtering services intended to restrict minors from accessing such harmful sites.

In addition, there are also concerns over the increasing incidence of accidents caused by the use of mobile phones while operating vehicles or bicycles, as well as issues with increasing occurrence of problems caused by the use of mobile phones while walking. In addition, there are issues concerning the high fees charged for the

excess use of paid content by subscribers and the leaking of private information by fraudulent applications and software. Such issues may adversely affect the credibility of NTT Group's products and services, adversely impact customer satisfaction, and tarnish NTT Group's corporate image, which may result in an increasing number of cancellations among current subscribers and an inability to acquire the anticipated number of new subscribers, which could adversely affect NTT Group's results of operations and financial condition.

In response to these risks, NTT Group has worked to provide products and services that can be used comfortably and securely, including providing locks on smartphone use while users are walking, filtering and other functions, and has promoted awareness activities to improve knowledge and personal behaviors with respect to its products and services.

However, there can be no assurance that NTT Group's efforts will ultimately prove to be successful.

NTT Group may be subject to unfavorable decisions in litigation or other proceedings, which could have an adverse effect on its operations.

Because NTT Group operates through a large number of sites both domestically and abroad, and offers a wide array of goods and services, it is possible that NTT Group will become a party to various types of litigation, disputes, or claims for damages. If NTT Group were to become party to any such litigation, dispute, or claim for damages, in addition to the possibility of a potential financial burden, an unfavorable decision could harm NTT Group's credibility and corporate image, and thereby adversely affect NTT Group's results of operation and financial condition. In response to these risks, NTT Group monitors litigation, disputes and claims against all NTT Group companies, including currently active claims and pending claims, and responds to any related developments promptly when the need arises.

However, there can be no assurance that NTT Group's efforts will ultimately prove to be successful.

Risks associated with the Government, including rules, regulations and others

Changes or decisions regarding telecommunications regulations may affect NTT Group's business.

The regulation of the Japanese telecommunications industry has evolved in many areas, including amendments to telecommunications laws aimed at promoting competition, protecting service users and other purposes. Decisions relating to Government regulations and the resulting changes in the telecommunications industry may affect NTT Group's results of operations and financial condition. In response to these risks, NTT Group is taking appropriate steps to obtain necessary information on developments relating to the Government's information and telecommunications policies and regulations, and has also presented its views through public comments and hearings.

However, there can be no assurance that NTT Group's efforts will ultimately prove to be successful.

For a summary of Government regulations currently under review, see "Item 4—Information on the Company—Regulations."

The frequencies that NTT Group can use are limited, and it is possible that it will not be able to secure adequate frequency spectrum for its operations.

NTT Group has limited frequencies available for its services. While the number of subscribers and the traffic per subscriber are expected to increase in conjunction with the expanded use of devices such as smartphones and tablets, if NTT Group were unable to obtain the frequency spectrum required for unhindered operation or if the start of operations on a different band frequency did not progress as planned, NTT Group may suffer degradation of service quality and incur additional costs.

In addition, NTT Group may face constraints in providing wireless services or lose subscribers to competitors, which could have a material adverse effect on NTT Group's results of operations or financial condition. In response to these risks, NTT Group is working to obtain new frequencies and implementing carrier aggregation with respect to its mobile communications networks to improve the efficiency of frequency usage.

However, there can be no assurance that NTT Group's efforts will ultimately prove to be successful.

For details, see "Item 4—Information on the Company—Regulations."

NTT Group may be impacted by laws, regulations and systems relating to the environment, such as those relating to reduction of greenhouse gas emissions.

NTT Group is subject, both in Japan and overseas, to laws and regulations relating to the environment, such as those governing the reduction of greenhouse gas emissions, energy conservation, waste disposal and harmful substance removal. In the event that stricter laws and regulations and societal demands with respect to the environment materialize in the future, or new laws and regulations are introduced, costs may increase, which may impact NTT Group's financial condition and results of operations. In response to these risks, NTT Group is working to reduce the environmental burden on society by implementing a variety of forward-looking measures, such as introducing highly efficient power supplies and reusing and recycling telecommunications facilities, in order to comply with such laws and regulations relating to the environment.

However, there can be no assurance that NTT Group's efforts will ultimately prove to be successful.

The Government owns enough NTT Shares to give it considerable influence over whether resolutions at NTT shareholder meetings are adopted, and rules and regulations in Japan provide the Government with regulatory authority over NTT Group companies.

The Government, through the Minister of Finance, currently owns 32.39% of NTT's issued Shares (33.70% of NTT's outstanding Shares excluding treasury stock), which equates to 33.74% of the voting rights, calculated on the basis of issued Shares minus treasury stock and less-than-one-unit shares. The Government, in its capacity as a shareholder, votes at NTT shareholder meetings and, by virtue of its statutorily mandated position as the largest shareholder, has the power to exert considerable influence over decisions made at such meetings. In 1997, in a statement at the Diet, the Government stated that it did not intend to actively use its position as a shareholder to direct the management of NTT. In fact, the Government has not historically used its power as a shareholder to direct the management of NTT. For details regarding the regulatory authority the Government legally has with respect to NTT Group, see "Item 4—Information on the Company—Regulations."

Investors may have difficulty enforcing judgments under the laws of foreign countries, including the U.S. securities laws regarding the civil liabilities of NTT.

NTT is a limited liability, joint-stock corporation established under the laws of Japan. All of NTT's directors and management reside in Japan. All or a substantial portion of the assets of such persons or NTT are located in Japan. As a result, it may not be possible for investors to effect legal service of process outside Japan upon such persons or NTT or to enforce against them judgments predicated upon the laws of foreign countries, including the civil liability provisions of the U.S. securities laws, in federal or state courts in the United States or other foreign courts. NTT has been advised by its Japanese counsel that there is uncertainty as to the enforceability, in actions originated in Japan, of liabilities predicated solely upon the laws of foreign countries, including the U.S. securities laws, and as to the enforceability in Japan of judgments of federal or state courts in the United States or other foreign courts obtained in actions predicated upon the laws of foreign countries, including the civil liability provisions of the U.S. securities laws.

Forward-Looking Statements

Some of the statements made in this annual report are forward-looking statements. These include statements with respect to NTT's plans, strategies and beliefs and other statements that are not historical facts. Forward-looking statements include, but are not limited to, those statements using words such as "believe," "expect," "plans," "strategy," "prospects," "forecast," "estimate," "project," "anticipate," "aim," "intend," "seek," "may," "might," "could" or "should," and words of similar meaning in connection with a discussion of NTT Group's future operations, financial performance, events or conditions. The statements are based on management's assumptions and beliefs in light of the information currently available to it. These assumptions and beliefs include information concerning NTT Group and the economy and telecommunications industry in Japan and overseas.

The assumptions also involve risks and uncertainties which may cause NTT Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Potential risks and uncertainties include:

- (i) changes in economic conditions, fluctuations in exchange and interest rates, and volatility in securities and other financial markets in Japan and other countries;
- (ii) NTT Group's fund procurement;
- (iii) the effects of changes in market structure and increased competition on NTT Group's operating revenue;
- (iv) the pricing of services, including risks and uncertainties associated with the reduction in revenues that may result from changes in rates;
- (v) the ability of NTT Group to maintain growth and the success of new business models and services and businesses;
- (vi) projections of future usage of NTT Group's networks, including broadband services, 3G mobile subscriber services, wireless broadband services through LTE and other Internet-related businesses;
- (vii) risks and uncertainties associated with the growth of NTT Group's global businesses;
- (viii) technology substitution and changes in available technology;
- (ix) the progress of NTT Group's efforts to reduce costs;
- (x) NTT Group's international and domestic investments, alliances and collaborations;
- (xi) the ability of NTT Group to obtain licenses or other rights to use the intellectual properties of third parties that are necessary for NTT Group to conduct its business;
- (xii) the ability of NTT Group to hire or retain necessary personnel;
- (xiii) the effect on NTT Group's financial condition and operating results of system/network failures and problems arising during system construction due to causes including: earthquakes, typhoons, other natural disasters and pandemics; power shortages, malfunctioning of equipment, hardware or software failures (including failures of systems or services that NTT Group provides or delivers to customers; cyberattacks, acts of terrorism, armed action, regional conflict, intentional wrongdoing and sabotage; and other similar natural disasters or acts of wrongdoing;
- (xiv) fraud or misconduct, such as the improper handling and leaking of confidential information obtained in the course of NTT Group's business, such as customers' personal information, in Japan and other countries;
- (xv) the occurrence of crime and other social problems resulting from improper use by certain users of products or services offered by NTT Group;

- (xvi) concerns over health risks and safety issues associated with the use of products and services offered by NTT Group;
- (xvii) the effect of ongoing or potential litigation, and the subsequent outcome or rulings of government agencies;
- (xviii) the effect of the introduction of, or changes to, various laws and regulations, including changes or decisions regarding telecommunications regulations, such as future decisions regarding the setting of interconnection rates and changes to the NTT Act;
- (xix) the ability of NTT Group to add capacity to its existing networks; for example, the possibility that NTT DOCOMO is unable to secure the necessary frequency spectrum for operation or expand its facilities;
- (xx) the introduction of new laws and regulations, and the strengthening of existing laws and regulations, relating to the environment, such as the reduction of greenhouse gas emissions; and
- (xxi) any decision by the Government of Japan to exercise its power to exert influence over decisions made at NTT general meetings of shareholders.

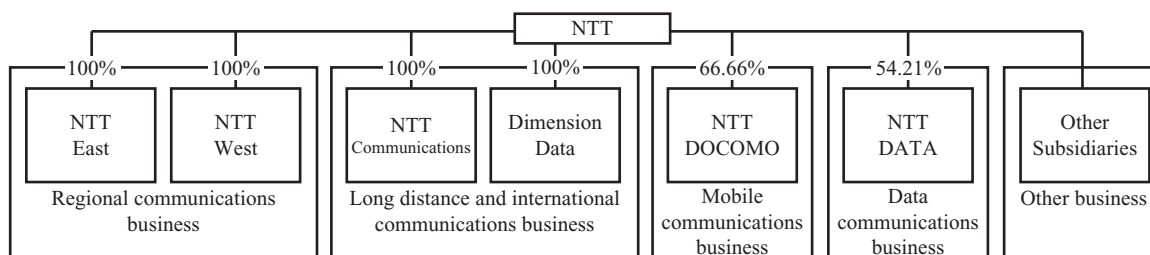
Investors should not rely on any obligation of NTT Group to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, and NTT Group disclaims any such obligation.

NTT desires to qualify for the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995.

ITEM 4—INFORMATION ON THE COMPANY

NTT Group

Operations and Segment Overview



* Figures represent NTT's equity interest, whether direct or indirect, in each of its subsidiaries as of March 31, 2017. NTT and its principal subsidiaries listed above are all incorporated in Japan, with the exception of Dimension Data, which is incorporated in the United Kingdom.

NTT Group is the largest provider of fixed and mobile voice related services, IP/packet communications services, telecommunications equipment, system integration and other telecommunications-related services in Japan and operates one of the largest telephone networks in the world. NTT Group consists of NTT (as the holding company), its 944 subsidiaries and its 118 affiliated companies (as of March 31, 2017). The principal business segments of NTT Group are its regional communications business, long distance and international communications business, mobile communications business, and data communications business. NTT Group also has an other business segment. Details of each principal business segment and the consolidated subsidiaries within each principal business segment are described below. NTT Group's five business segments are described under Note 18 to the Consolidated Financial Statements.

The principal services in the regional communications business segment are intra-prefectural communications services and related ancillary services. NTT's consolidated subsidiaries in the regional communications business segment are NTT East, NTT West, and 49 other companies.

The principal services in the long distance and international communications business segment are domestic inter-prefectural communications services, services related to the international communications business, services related to the solutions business and related services. NTT's consolidated subsidiaries in the long distance and international communications business segment are NTT COMMUNICATIONS, Dimension Data Holdings plc, NTT Security Corporation, NTT America, Inc., NTT EUROPE LTD., Lux e-shelter 1 S.a.r.l., Arkadin International SAS, RagingWire Data Centers, Inc., Virtela Technology Services Incorporated, NETMAGIC SOLUTIONS PRIVATE LIMITED, GYRON INTERNET LIMITED, NTT Plala Inc., Spectrum Holdings Inc., and 368 other companies.

The principal services in the mobile communications business segment are mobile phone services and related services. NTT's consolidated subsidiaries in the mobile communications business segment are NTT DOCOMO^(*) and 117 other companies.

(*) NTT DOCOMO was incorporated in Japan as a joint-stock company in 1991. As of March 31, 2017, NTT's ownership interest in NTT DOCOMO was 66.66% (including shares owned indirectly).

The principal services in the data communications business segment are network system services and system integration services. The consolidated subsidiaries in the data communications business segment are NTT DATA^(*), NTT DATA, Inc., NTT DATA Services, LLC, EVERIS PARTICIPACIONES, S.L.U., NTT Data International L.L.C., and 296 other companies.

(*) NTT DATA was incorporated in Japan as a joint-stock company in 1988. As of March 31, 2017, NTT's ownership interest in NTT DATA was 54.21% (including shares owned indirectly).

The other business segment includes NTT's operations, and its real estate, finance, construction and power, systems development and development of advanced technologies businesses. NTT's consolidated subsidiaries in the other business segment are NTT Urban Development, NTT FINANCE, NTT FACILITIES, NTT COMWARE CORPORATION, NTT ADVANCED TECHNOLOGY CORPORATION, and 88 other companies.

Main Services

NTT Group provides fixed-line broadband and fixed-line telephone services through NTT East and NTT West, and is the largest provider of such services in Japan. As of March 31, 2017, the number of combined NTT East and NTT West broadband service subscriptions for Hikari Access services and for ADSL services was 20,053 thousand subscriptions and 919 thousand subscriptions, respectively. Aggregate subscriber line subscriptions, which is the sum of fixed-line telephone service subscriptions and ISDN service subscriptions, totaled 21,336 thousand subscriptions. In addition, NTT Group provides internet service provider ("ISP") services through NTT Communications and others. As of March 31, 2017, the number of ISP service subscriptions was 11,231 thousand subscriptions.

NTT Group provides mobile broadband and mobile voice communications services through NTT DOCOMO. This service is provided through two networks, LTE and W-CDMA. As of March 31, 2017, NTT DOCOMO had 74,880 thousand subscribers and was the largest provider of mobile phone services in Japan.

NTT Group provides data communications services through NTT DATA. NTT DATA is the leading provider of data communications systems and information systems using computer networks as a platform in Japan. NTT DATA primarily engages in strategic planning, designing, installing and operating data communications systems and computer network-based information systems, and providing IT services.

In addition, through its subsidiaries, NTT Group provides financial services, including issuing leases and credit cards, real estate services, including building rentals and apartment sales, systems development services, and construction-related services, including the design, construction and maintenance of buildings.

NTT's Agent for U.S. Federal Securities Law Purposes

NTT's agent for U.S. federal securities law purposes is NTT America, Inc., located at 757 Third Avenue, 14th Floor, New York, NY 10017. NTT is located at 5-1, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8116, Japan (Phone number: +81-3-6838-5481). NTT's Internet website address is http://www.ntt.co.jp/index_e.html. The information on NTT's website is not incorporated by reference into this document. This annual report will be placed on NTT's Internet website concurrently with its filing with the United States Securities and Exchange Commission (the "SEC").

History

(1) Background

On August 1, 1952, pursuant to the Nippon Telegraph and Telephone Public Corporation Act (Act No. 250 of July 31, 1952), NTT Public was incorporated, with its capital stock wholly owned by the Government. On April 1, 1985, pursuant to the Nippon Telegraph and Telephone Corporation Act (Act No. 85 of December 25, 1984), NTT was established, with its capital stock wholly owned by the Government. When NTT was established, it succeeded to all the rights and obligations of NTT Public.

(2) History

April 1985	NTT was incorporated as a limited liability, joint-stock company.
February 1987	NTT's Shares were listed on the Tokyo Stock Exchange (the "TSE") and other stock exchanges in Japan.
July 1988	NTT's DATA Communications Division was transferred to NTT DATA System Service Corporation.
April 1992	Implemented organizational reform corresponding to the long distance and regional communications service divisions through a review of, and commitment to, a divisional system.
July 1992	Business operations relating to car phones, mobile phones, maritime telephones, aircraft passenger telephones and radio paging were transferred to NTT Mobile Communications Network, Inc.
December 1992	NTT's electricity, construction and building management operations were transferred to NTT FACILITIES.
September 1994	NTT ADSs were listed on the New York Stock Exchange (the "NYSE").
October 1994	NTT's Shares were listed on the London Stock Exchange.
April 1995	NTT DATA System Service Corporation was listed on the TSE.
September 1997	NTT transferred its software headquarters business to NTT COMMUNICATIONWARE CORPORATION.
August 1998	NTT DATA System Service Corporation changed its business name to NTT DATA CORPORATION.
October 1998	NTT Mobile Communications Network, Inc. was listed on the TSE.
July 1999	Implemented a group reorganization by which NTT became a holding company. Operation of NTT's intra-prefectural communications services was transferred to its two wholly owned subsidiaries, NTT East and NTT West, and inter-prefectural communications services were transferred to NTT COMMUNICATIONS CORPORATION, also a wholly owned subsidiary of NTT.
April 2000	NTT Mobile Communications Network, Inc. changed its business name to NTT DOCOMO, INC.
November 2000	NTT COMMUNICATIONWARE CORPORATION changed its business name to NTT COMWARE CORPORATION.
March 2002	NTT DOCOMO, INC. was listed on the London Stock Exchange and the NYSE.
November 2004	NTT URBAN DEVELOPMENT CORPORATION was listed on the TSE.
January 2009	NTT implemented a 100-for-1 common stock split.
July 2015	NTT implemented a 2-for-1 common stock split.
April 2017	NTT voluntarily delisted its ADSs from the NYSE.

Reorganization

On July 1, 1999, certain of NTT's business activities were transferred to NTT's wholly owned subsidiaries NTT East, NTT West and NTT Communications. Under the Act to Amend the Nippon Telegraph and Telephone Corporation Act promulgated in June 1997, NTT is required to hold 100% of the share capital of NTT East and NTT West. NTT East provides regional telecommunications and related services in the Hokkaido, Tohoku, Kanto and Shin-etsu regions of Japan. NTT West provides regional telecommunications and related services in the Tokai, Hokuriku, Kansai, Chugoku, Shikoku and Kyushu regions of Japan. NTT Communications provides domestic inter-prefectural telecommunications, data transmission services such as IP-VPN (Virtual private network) and OCN, and other network and ancillary services throughout Japan. NTT Communications also offers international telecommunications services and intra-city telecommunications services.

After the transfer of certain business activities in 1999, NTT began to operate primarily as a holding company. The principal sources of NTT's revenues consist of the following three categories:

- dividends from its subsidiaries;
- payments for providing management services through contracts with its subsidiaries; and
- payments for its fundamental research and development activities through contracts with each of its subsidiaries that benefit from NTT's research and development activities.

NTT is directly responsible for formulating and promoting the overall strategy of NTT Group, setting financial targets for NTT Group and conducting fundamental research and development for NTT Group. The presidents of NTT East, NTT West, NTT Communications, NTT DOCOMO, NTT DATA and NTT meet from time to time to discuss the strategy of NTT Group. Generally, each of the companies within NTT Group operates autonomously. However, each company must discuss with, or report to, NTT certain fundamental business decisions relating to that company, including amendments to its articles of incorporation, mergers and consolidations, assignments and transfers of businesses, election and removal of directors and corporate auditors, appropriation of profits, increases in share capital, investments, including international investments, loans and guarantees, and the establishment of business operation plans.

See "Item 4—Information on the Company—Regulations—NTT Act" regarding recent developments concerning NTT Group's managerial structure.

Voluntary Delisting from the NYSE

In light of changes in the Japanese stock market environment that have taken place since NTT initially listed its ADSs on the NYSE, NTT decided to voluntarily delist its ADSs from the NYSE, effective April 3, 2017, as NTT determined that the necessity to remain listed on the NYSE had decreased while the costs associated with being an NYSE-listed company had increased. Following NTT's delisting from the NYSE, NTT's ADSs have traded on the U.S. over-the-counter market. NTT's Shares are currently only listed on the Tokyo Stock Exchange.

Business Operations of Subsidiaries

NTT Group has undertaken several initiatives to improve its management efficiency and promote cost savings. These include the transfer from NTT to its subsidiaries of certain functions, including telecommunications software and systems development, facility management and maintenance, equipment sales and directory assistance. In addition, NTT Group has begun making these services available not only to NTT Group companies but also to third parties, thereby creating new revenue sources. NTT expects its subsidiaries, as independent companies, to take greater responsibility for the profits or losses of their operations and to have a stronger incentive to boost revenues and cut costs as compared to when they were divisions of NTT. As of March 31, 2017, NTT had 1,062 subsidiaries and affiliated companies. The major changes to each NTT Group company's business operation structure are as described below.

Reorganization of Business Operations Structures of NTT East and NTT West

In May 2002, NTT transferred an aggregate of approximately 100,000 NTT East and NTT West employees to approximately 100 regional outsourcing companies with specializations in three fields: facilities and equipment, sales and marketing, and administration and accounting.

In July 2005, NTT East consolidated the three fields of its regional outsourcing companies into prefectural units, and outsourced branch corporate marketing operations to these new companies as well.

In July 2014, NTT East revised its business management structure in response to the changing market and business environments in order to further enhance operational efficiency and promote service provision by working even more closely with local communities. Specifically, in order to further promote the efficiency of its 17 branch offices in each prefecture of the NTT East area, NTT East merged its branch offices into six business divisions and consolidated operations for efficiency where possible. To promote service provision in even closer conjunction with the local communities, NTT East established 29 branch offices as internal units within these business divisions, which divide the larger markets, namely the greater Tokyo metropolitan area (Tokyo, Kanagawa, Chiba and Saitama) and Hokkaido.

In connection with these developments, NTT East reorganized its 17 regional subsidiaries in each prefecture of the NTT East area and NTT East Solutions Corporation, which had overseen corporate sales in the Tokyo area, into four companies. In addition, in order to further increase business efficiency and to promote greater consistency in, and improvement of, service levels, front office operations (including 116 call centers) that had previously been outsourced to multiple companies were re-established as NTT EAST JAPAN SERVICE CORPORATION to operate in a centralized manner.

In July 2006, NTT West modified the organization of its headquarters and reinforced its prefectural branch functions. In conjunction with these developments, NTT West also consolidated its facilities and equipment, sales and marketing, and administration and accounting subsidiaries. Furthermore, in April 2008, NTT West established six new companies, including NTT West-Home Techno Corporation, which commenced operations in July 2008.

In July 2012, in order to promote and expand strategic growth businesses and to further expand its business areas, NTT West consolidated the NTT West-Home Techno companies into the newly formed NTT Home Techno Corporation. In addition, in October 2013, NTT Business Solutions Corporation was established through the merger and name change of eight regional subsidiaries and six IT-MATE companies in response to the need for stronger sales capabilities in business markets including small- to medium-sized businesses, whose need for ICT use is expected to grow in the future. Services other than information and communications systems proposals, construction, and support for business users have been transferred from eight regional subsidiaries to NTT MARKETING ACT CORPORATION, NTT FIELDTECHNO (name changed from NTT HOMETECHNO), NTT NEOMEIT CORPORATION, and NTT BUSINESS ASSOCIE WEST Co., Ltd.

Reorganization of Business Operations Structure of NTT Communications

In the fiscal year ended March 31, 2007, NTT Group conducted a review of its corporate businesses and upper layer businesses. Specifically, with respect to its corporate businesses, NTT Group also revised its customer accounts system. Since that time, NTT East and NTT West have been responsible for customers who require more locally oriented service, while NTT Communications has been responsible for other customers such as central government agencies, city banks, and trading companies. Further, with respect to upper layer businesses, companies that operate portal websites and provide Internet access services and video distribution services for television became subsidiaries of NTT Communications.

In May 2012, NTT Communications established NTT COM Marketing to consolidate NTT Group's resources under a single company, with the goal of strengthening sales to small- and medium-sized businesses. NTT COM Marketing began operations in August 2012. NTT COM Marketing succeeded the sales business of NTT Com CHEO, including its marketing support operations, through an absorption-type company split.

Further, NTT Com Technology Corporation and NTT Com Solution & Engineering Corporation have worked to further strengthen the competitiveness of their solutions businesses and engineering businesses, and in conjunction with reviews of their respective business objectives and goals, changed their respective names to NTT Com Solutions Corporation and NTT Com Engineering Corporation in January 2015.

Reorganization of Business Operations Structure of NTT DOCOMO

In July 2008, NTT DOCOMO reorganized its group structure to merge its eight regional subsidiaries, including NTT DoCoMo Hokkaido, Inc., into NTT DOCOMO. Furthermore, in July 2014, NTT DOCOMO reorganized 25 business service subsidiaries nationwide into 12 companies, including DOCOMO CS Co. Ltd., in order to be able to make further improvements to the services it provides at the community level.

Reorganization of Business Operations Structure of NTT DATA

Since January 2012, NTT DATA has conducted its business operations largely through NTT DATA, Inc. in the U.S., NTT DATA EMEA Ltd. in Europe, the Middle East and Africa, NTT DATA (CHINA) INVESTMENT Co., LTD. in China, and NTT DATA Asia Pacific Pte. Ltd. in the Asia-Pacific region, in response to the accelerating global business needs of its customers, with the goals of both building a global-scale structure that provides an operational system supported by rapid service, and of strengthening the NTT DATA brand abroad. Further, in April 2012, NTT DATA changed its corporate logo to a globally uniform design and initiated business development under the new brand logo. Furthermore, NTT DATA's acquisition of EVERIS PARTICIPACIONES, S.L.U. ("everis Group") in January 2014, which has operations in Spain and major countries in Latin America, has enabled NTT to provide comprehensive IT services to customers in these regions.

Effective January 7, 2015, NTT DATA designated NTT DATA (CHINA) INVESTMENT Co., LTD. as its primary Chinese subsidiary and integrated and reorganized NTT DATA (CHINA) Co., LTD. and NTT DATA (CHINA) Information Technology Co., LTD.

In July 2015, with a view to being able to respond to changes in the business environment in the medium- and long-term and to further promote business cooperation, NTT DATA revised its operating structure from a company system to a divisional system.

In March 2016, NTT DATA agreed to acquire the Dell Services Division (consisting of Dell Systems Corporation, Dell Technology & Solutions Limited and Dell Services Pte. Ltd., and Dell Group's IT services-related assets mainly in North America) from Dell Inc. After completing the acquisition of over 99.9% (asset value base) of Dell Services by March 6, 2017, beginning in April 2017, NTT DATA launched a new operating structure under which the Dell Services Division was consolidated with NTT DATA's existing North American entity, NTT DATA, Inc., to begin operating as NTT DATA Services.

Implementation of Billing and Collection Operations for Communications Services and Other Charges by NTT Finance

Starting in July 2012, NTT Finance commenced billing and collection operations with respect to communications services and other charges. The staff involved in billing and collection at NTT East, NTT West, NTT Communications and NTT DOCOMO were brought into NTT Finance as a team of specialists to carry out these operations. As a result, NTT Group was able to meet customer demand with respect to the ability to make one-stop payments, in response to the current environment in which individuals and households use multiple communications services, such as fixed-line telephones, mobile phones, broadband and ISP services. While each NTT Group company has heretofore taken initiatives to improve efficiency with respect to billing and collection operations for communications services, NTT Group is continually seeking further improvements in quality and efficiency.

Principal Business Activities

NTT Group's businesses are segmented according to its five primary lines of business: regional communications business, long distance and international communications business, mobile communications business, data communications business, and other business. See Note 18 to the Consolidated Financial Statements attached hereto.

The business results for each principal business segment for the fiscal year ended March 31, 2017 are as follows:

Regional Communications Business Segment

In the regional communications business segment, NTT Group worked to develop its B2B2X business through the Hikari Collaboration Model, the wholesale provision of fiber-optic access infrastructure services to various service providers.

[1] Details of Main Initiatives

With regard to the Hikari Collaboration Model, the number of service providers providing wholesale service was approximately 550 companies at the end of the fiscal year ended March 31, 2017, as NTT Group further expanded collaborative projects with not only business operators in the communications industry, energy industry, real estate industry, and security industry, but also business operators in diverse industries including the housing industry and media industry in the fiscal year ended March 31, 2017. Furthermore, in the housing industry, new use cases were born, including providing total lifestyle support after home purchases, which includes a combination of this model and HEMS service and lifestyle-related services. As a result of these initiatives, the number of fiber-optic access service subscriptions using this model was 8.74 million.

With the development of the Hikari Collaboration Model, NTT Group worked to continually reduce marketing costs. Furthermore, by simplifying and streamlining networks and further increasing the usage of existing facilities, NTT Group worked to make capital investment more efficient.

As companies and local governments are proactively promoting the use of Wi-Fi as a powerful information service tool, in various regions, NTT Group continually worked to improve convenience for the increasing number of visitors to Japan by expanding the coverage area of Wi-Fi, resulting in the number of Wi-Fi area owners reaching 557.

[2] Number of Subscriptions for Major Services

- FLET'S Hikari: 20.05 million subscriptions (an increase of 0.79 million subscriptions from the previous fiscal year)
(Included in the above) Hikari Collaboration Model: 8.74 million subscriptions (an increase of 4.05 million subscriptions from the previous fiscal year)
- Hikari Denwa: 17.76 million channels (an increase of 0.38 million channels from the previous fiscal year)
- FLET'S TV: 1.52 million subscriptions (an increase of 0.09 million subscriptions from the previous fiscal year)

Note: The figures for "FLET'S Hikari," "Hikari Denwa" and "FLET'S TV" include the number of subscriptions for wholesale services provided to service providers through the use of the Hikari Collaboration Model by NTT East and NTT West.

Long Distance and International Communications Business Segment

In the Long Distance and International Communications Business Segment, in addition to enhancing its provision of seamless ICT solutions combining network and security, etc., NTT Group worked to enhance its service provision in growth areas such as cloud services and IT outsourcing.

[1] Details of Main Initiatives

To provide an ICT solution based on a more highly reliable international network to its enterprise clients, in October 2016 NTT Group began operations of the "Asia Pacific Gateway," NTT Group's high-bandwidth

optical submarine cable network. Additionally, to respond to demand for cloud services and data centers in various global regions, in the continually growing market of America, in addition to launching service at its Virginia Ashburn 2 (VA2) Data Center, NTT Group began construction on its Virginia Ashburn 3 (VA3) Data Center, designed to achieve strong security and high-level energy savings, thus proactively expanding its cloud platform by working to provide different variations of data centers. As a result of these initiatives, NTT Group's data centers were ranked as top class in the world in terms of both total floor area and potential server installation floor area according to a report by U.S. TeleGeography (published in November 2016).

NTT Group received an IT outsourcing order from major U.K. insurance provider ReAssure UK Services Limited, and began providing infrastructure services including introduction of cloud services for the company's servers and security oversight services.

[2] Number of Subscriptions for Major Services

- Number of customers for Cloud Services: 9,000 customers (an increase of 700 customers from the previous fiscal year)
- Hikari TV: 3.02 million subscriptions (a decrease of 0.03 million subscriptions from the previous fiscal year)

Mobile Communications Business Segment

In the Mobile Communications Business Segment, NTT Group has worked toward the promotion of sales of the billing plan, "Kake-hodai & Pake-aeru," and "docomo Hikari," promoting collaboration with various business partners and providing new value-added services to enhance profitability in the smart life area.

[1] Details of Main Initiatives

In addition to continuing to promote the sales of its "Kake-hodai & Pake-aeru," as a billing plan tailored to suit a customer's stage of life that offers more affordable rates to long-term users, in November 2016 NTT Group began offering its "docomo Child Raising Support Program" and other initiatives, working to enhance returns to its customers. As a result, the number of subscriptions to "Kake-hodai & Pake-aeru" reached 37.07 million.

By utilizing the Hikari Collaboration Model from the Regional Communications Business Segment, NTT Group promoted the sales of the "docomo Hikari Pack," which bundles fiber-optic access infrastructure services, internet access service, and mobile service. As a result, the number of subscriptions to "docomo Hikari" reached 3.40 million.

In order to strengthen profitability in the Smart Life area, NTT Group pursued the "+d" initiative, which was aimed at creating new added value through collaboration with various business partners, and expanded its content, finance, and settlement services. Specifically, NTT Group collaborated with Perform Group to begin providing the sports streaming service "DAZN for docomo," and worked to expand the number of member stores for its "d POINTs" loyalty point program.

Data Communications Business Segment

In the Data Communications Business Segment, NTT Group responded to the acceleration of its customers' expansion in the global market and the diversification and increased sophistication of their needs by working to expand its business in the global market and to expand and reliably provide a range of IT services, such as system integration, that are responsive to the changes in the market.

[1] Details of Main Initiatives

To increase its presence through the acquisition of a North America-focused operating base and to enhance cloud services and BPO services, NTT Group acquired the businesses of the Dell Services Division, which has been highly regarded by customers for providing digital solutions and BPO services tailored to the healthcare industry.

To create new finance-related services through open innovation, together with venture firms and regional banks, NTT Group established the “BeSTA FinTech Lab,” working to provide new services utilizing FinTech including the implementation of practical testing of information distribution services with location data.

Aiming for the expanded use of global geospatial information, creation of new markets, and the stimulation of related industries, in April 2016 NTT Group began to offer the world’s highest-resolution “AW 3D® Global High-resolution 3D Map” developed with the Remote Sensing Technology Center of Japan (RESTEC) to all global land spaces.

Other Business Segment

In the Other Business Segment, NTT Group mainly provided services related to the real estate business, finance business, construction and electric power business, and system development business.

Real Estate Business

NTT Group pursued its office and retail operations centered on office buildings and commercial facilities and its residential operations principally through the “Wellith” brand. Furthermore, NTT Group utilized its know-how developed in these operations to pursue global and hotels & resorts businesses.

Finance Business

NTT Group provided financial services such as leasing, installation payment, and other finance areas concentrating on information-related equipment, billing and collection services for telecommunication service bills, and credit card transaction settlement services.

Construction and Electric Power Business

By combining and utilizing its technology in ICT, energy, and construction to the fullest extent, NTT Group designed and built large-scale solar power generation systems and data centers.

System Development Business

To provide optimized, high-quality ICT services, NTT Group worked to develop network operation systems and application services.

Global Businesses

There is a transformation underway in the international information and communications market “towards the next stage.” Due to the development of the Internet, people are increasingly able to obtain an enormous variety of information over the Internet as well as use applications available over the Internet. Due to the introduction of, among other things, big data, IoT (Internet of Things), virtualization and HTML5, NTT anticipates that the convergence between real-world businesses and Internet-based services will lead to higher value-added services. Against the backdrop of surging growth in cloud computing, NTT expects that developed nations, where revolutionary new services that address sophisticated needs have been developed, will continue to be important markets. Going forward, however, these services will spread to emerging countries, too, which should lead to further growth of the ICT market.

NTT Group's main efforts in the past few years relating to its global business operations have focused on its goal of expanding its global business operations for corporate customers. In October 2010, NTT acquired its subsidiary Dimension Data, based in the Republic of South Africa, which offers development, operation and maintenance of on-site IT infrastructure for corporate customers, such as network equipment, servers and other devices.

This acquisition has increased the competitiveness of both companies by integrating NTT's strength in providing managed network services and data centers with Dimension Data's strength in the development, operation and maintenance of IT infrastructure. NTT and Dimension Data are working to thereby increase their competitiveness and strengthen the structures through which they provide comprehensive ICT services. In addition, in October 2012, NTT acquired Centerstance, Inc., a U.S.-based consulting company that specializes in the analysis of important corporate business processes and cloud migration of existing systems, and provides integration services with Salesforce.com; Centerstance, Inc.'s stock was later transferred to NTT DATA in May 2015.

In April 2013, NTT established NTT Innovation Institute, Inc. ("NTT I³") as a new R&D center in North America. NTT Group is strengthening the development of its Global Cloud services by promoting the development of services tailored to the North American market through research and development relating to cloud services, next-generation networks and other areas. Additionally, in June 2016, NTT established NTT Security Corporation, a specialized security company that offers services based on the advanced analytics technologies, threat intelligence and security experts of NTT Com Security, Solutionary, Dimension Data, NTT Innovation Institute and NTT Communications. NTT Security started its business operations in August 2016, and provides advanced managed security services (MSS) and professional specialized security services that support the entire security life-cycle, through NTT operating companies worldwide.

NTT Group, as its customers' continued "Value Partner" of choice, is able to develop on a global scale and promote simple and secure Global Cloud services that encompass applications, networks, and cloud platforms as the cornerstone of its business, in order to provide support for the business model innovations of its corporate customers. NTT Group takes advantage of its ability to provide group-wide full-stack services revolving around cloud services by virtue of collaboration between its individual companies, and its ability to consistently land orders for large cloud projects is one example of its record for success. As a result of these initiatives, overseas sales reached \$16.90 billion in the fiscal year ended March 31, 2017.

Going forward, in order to continue to generate greater profits from its international business, NTT Group will also continue to work to achieve stable growth in sales by strengthening its services, products, sales processes and marketing. NTT Group will also aim to promote cost efficiency by reducing procurement costs and streamlining and optimizing its services and operations.

Other principal global investments of each material NTT Group company during the last three fiscal years include the following:

(i) **NTT Communications**

NTT Communications is advancing its provision of seamless global business operations to offer the type of seamless ICT solutions to which a telecommunications carrier is best suited to add value. With customers migrating their ICT environments to the cloud and/or data centers, NTT Communications operates its services as a package, including network services, voice and similar applications and security, with globally consistent quality.

Arkadin International SAS

In January 2014, NTT Communications acquired France-based Arkadin International SAS, the world's third-largest specialized provider of conferencing services, which provides collaboration services involving

teleconference, Web conference and video conference services to 37,000 customers in 32 countries worldwide. NTT Communications plans to expand and improve the features of its communications services by incorporating Arkadin's service infrastructure into its own. NTT Communications will also leverage Arkadin's global customer base and its service capabilities to offer new total communications services, centered on conferencing solutions, for companies that are expanding their operations globally.

Virtela Technology Services Incorporated

In January 2014, NTT Communications acquired Virtela Technology Services Incorporated, a U.S.-based provider of network services and cloud-based managed network services in 196 countries and regions, with strengths in the areas of managed services and virtualization technologies. NTT Communications aims to take the lead position in the global market by combining NTT Communications' service quality with Virtela's innovative and efficient management know-how.

RagingWire Data Centers, Inc.

In January 2014, NTT Communications acquired RagingWire Data Centers, Inc., a U.S. data center operator. This acquisition significantly expands the high-quality data center server room floor space that the NTT Communications group is able to provide in the U.S., and enables NTT Communications to respond to customers' increased demand for cloud and data center services. NTT Communications also plans to deploy RagingWire's management know-how in its other data centers, in order to take advantage of RagingWire's numerous technology patents in efficient data center design and operations.

Lux e-shelter 1 S.a.r.l.

In June 2015, NTT Communications completed the acquisition of German data center business Lux e-shelter 1 S.a.r.l. ("e-shelter"). Through this acquisition, NTT Communications Group greatly expanded the total area of its high-quality continental European data center server room space and enhanced its capability to respond to the strong demand for global seamless cloud data center services in Europe and elsewhere. Through new collaboration between e-shelter and NTT Communications Group companies, e-shelter will be able to expand its coverage to Asia, North America and elsewhere, and will also be able to provide even broader support for the global development needs of customers by using networks and cloud bases provided by NTT Communications. Furthermore, it will be possible to rapidly expand e-shelter's business to increase its competitiveness within continental Europe.

PT. NTT Indonesia Nexcenter

In October 2015, NTT Communications completed its acquisition of PT. Cyber CSF, a data center service provider in Indonesia. In conjunction with the acquisition, PT Cyber CSF was renamed to "PT. NTT Indonesia Nexcenter." The acquisition has enabled NTT Communications to acquire a high-quality data center located in the heart of Jakarta. By providing seamless ICT solutions that combine this data center with NTT Communications' global network, security services and cloud services, PT. NTT Indonesia Nexcenter will support the promotion and development of business within Indonesia as well as the business development of companies abroad.

(ii) Dimension Data

Dimension Data offers services tailored to the characteristics of countries and clients worldwide, and is working both to maintain and optimize the strengths of these traditional core services and at the same time further expand its presence and increase its revenues in growth areas such as cloud services, IT outsourcing and security. Dimension Data's investment strategy is to grow its revenues and the size of its business and expand its geographic reach. It is focused on scaling in large, established markets, increasing its market share in the existing geographies in which it operates and expanding into new countries and areas.

Nexus IS, Inc.

In April 2014, Dimension Data acquired 100% of Nexus IS, Inc. Founded in 2004 and headquartered in Valencia, California, Nexus is a privately-owned provider of advanced IT solutions serving enterprises, mid-sized business and public sector clients, with industry specializations in education, retail, hospitality and healthcare. The acquisition of Nexus expands Dimension Data's operations in the US by 40%, and significantly increases the company's presence in the West, Southwest and Southeast regions of the country. As a result, clients have access to a deeper network of experts and a broader portfolio of solutions. Nexus has 19 offices in California, Nevada, Colorado, Arizona, Utah, Washington, Texas, Georgia, Florida, and North Carolina. The acquisition of Nexus is a strategic step in enhancing the Group's geographic coverage and depth of skills and capabilities to support its clients.

Oakton Limited

In November 2014, Dimension Data Australia announced the successful acquisition of technology and consulting services company Oakton Limited ("Oakton"). The acquisition of Oakton aligns with Dimension Data's strategy to address the challenges that clients face as they transform to harness the opportunities of becoming digital enterprises. Oakton's top-end consulting capability, combined with Dimension Data's expertise across ICT infrastructure integration, cloud, and outsourcing services, enables Dimension Data to create, deliver and manage end-to-end business solutions for our clients. The acquisition will expand Dimension Data's presence in Australia by over 60%, and significantly broaden the skills and capabilities. Dimension Data and Oakton have a complementary value proposition and footprint.

(iii) *NTT DOCOMO*

NTT DOCOMO makes investments in and collaborates with overseas mobile service providers and other overseas business operators, with the long-term aim of strengthening its global competitiveness.

NTT DOCOMO aims to strengthen its collaborations with mobile phone service providers by creating new business synergies, such as by launching services for foreign visitors to Japan and developing new services overseas that fully utilize the results of NTT DOCOMO's domestic corporate collaboration initiatives in Japan, among other initiatives.

Further, in recent years, NTT DOCOMO has worked to collaborate with various overseas business entities to provide a variety of services based on the construction of a global cloud platform.

DOCOMO PACIFIC, INC.

In May 2013, NTT DOCOMO acquired MCV Guam Holding Corp., the largest cable television and Internet service provider in Guam and the Commonwealth of the Northern Mariana Islands. This acquisition was intended to strengthen DOCOMO PACIFIC, INC.'s operational base by improving its market competitiveness.

In January 2016, MCV Guam Holding Corp. merged with DOCOMO PACIFIC, INC.

DOCOMO PACIFIC (SAIPAN), INC.

In March 2016, MCV Guam CNMI Holding Corp., which had previously been a subsidiary of MCV Guam Holding Corp., changed its name to DOCOMO PACIFIC (SAIPAN), INC., as a subsidiary of DOCOMO PACIFIC, INC. DOCOMO PACIFIC (SAIPAN), INC. conducts business operations in Guam and the Northern Mariana Islands.

DOCOMO Digital Limited

In August 2009, NTT DOCOMO established DOCOMO Digital GmbH in Germany as an entity to manage European subsidiary companies involved in the operation of content sales and carrier settlement platform

businesses. Subsequently, in December 2016, DOCOMO Digital GmbH merged with DOCOMO Digital Limited, which had been established in England in January 2016, and the merged company's headquarters were moved to London.

(iv) NTT DATA

With the objective of improving its presence in all regions of the world and to cultivate global synergies, NTT DATA is strengthening its competitiveness in major countries, gathering the strengths and resources of each group company, and promoting business collaboration to strengthen the entire group.

NTT DATA Enterprise Services, Inc.

In December 2013, NTT DATA acquired Optimal Solutions Integration, Inc. ("Optimal"), a leading North American SAP service provider. Optimal provides a broad range of services—from SAP-related strategic planning to consulting, evaluation, implementation, customization and maintenance services—and has large numbers of customers in many industries including consumer, retail, wholesale and distribution, mining, the public sector and manufacturing. This acquisition reinforces NTT DATA's ability to offer SAP-related products in the North American market, such as SAP HANA, mobile, and analytics, helping it to meet the needs of its customers. NTT DATA intends to expand and improve its SAP-related system development framework, including its business system in India, and will bolster NTT DATA's ability to handle large-scale projects.

In March 2014, Optimal Solutions Integration, Inc. changed its name to NTT DATA Enterprise Services, Inc.

EVERIS PARTICIPACIONES, S.L.U.

In January 2014, NTT DATA acquired EVERIS PARTICIPACIONES, S.L.U. ("everis Group"). everis Group provides a broad range of IT services, such as consulting, system integration and outsourcing, to customers including major banks, major insurance companies, major telecommunications carriers, government agencies, utilities, and major global manufacturers, mainly in Spain and six Latin American countries. This acquisition brings everis Group's sizeable and stable customer base, sophisticated consulting capabilities, and talented personnel, who are knowledgeable in providing a variety of services such as system integration and outsourcing, into the NTT DATA group, providing NTT DATA with business platforms in Spain and Latin America and enabling it to provide comprehensive IT services, including consulting and outsourcing, to customers in these regions. Moreover, NTT DATA aims to further improve its price competitiveness and service quality by taking advantage of everis Group's near-shore and offshore locations.

NTT DATA Consulting, Inc.

In July 2015, NTT DATA acquired Carlisle & Gallagher Consulting Group, Inc., a U.S. provider of financial IT consulting services. As a result of this acquisition, by combining NTT DATA's wide range of services and technology with Carlisle & Gallagher Consulting Group, Inc.'s specialized financial consulting expertise, it will become even more possible than before to develop services in areas that require industry-specific expertise, such as the banking and asset management and deployment sectors. The acquisition will also contribute to the growth of Carlisle & Gallagher Consulting Group, Inc.'s existing customers, by utilizing NTT DATA's global delivery network to provide them with even higher value-added and cost-reduced services.

In April 2016, Carlisle & Gallagher Consulting Group, Inc. changed its name to NTT DATA Consulting, Inc.

iPay88 Sdn. Bhd

In September 2015, NTT DATA acquired iPay88 Sdn. Bhd ("iPay88"), which holds the largest market share in Malaysia's PC- and mobile-based e-commerce online payment business. As a result of this acquisition, NTT

DATA aims to establish a foothold in the growing Asia-Pacific e-commerce online payment business market and to provide a variety of cutting-edge and highly competitive electronic payment services that combine NTT DATA's solutions and know-how in the payment field, acquired through CAFIS®, with iPay88's strong customer base and reputed online payment service and payment solution systems for merchants and financial institutions. NTT DATA's objective is to thereby further expand its payment business throughout the entire Asia-Pacific region, including Malaysia.

Dell Services

In March 2016, NTT DATA agreed to acquire the Dell Services Division (consisting of Dell Systems Corporation, Dell Technology & Solutions Limited and Dell Services Pte. Ltd., and Dell Group's IT services-related assets mainly in North America) from Dell Inc. After completing the acquisition of over 99.9% (asset value base) of Dell Services by March 6, 2017, beginning in April 2017, NTT DATA launched a new operating structure under which the Dell Services Division was consolidated with NTT DATA's existing North American entity, NTT DATA, Inc., to begin operating as NTT DATA Services.

NTT DATA Services has a strong business base with its major clients, including health insurance companies and medical institutions, companies in manufacturing industries and service industries, financial institutions and the United States federal government. NTT DATA Services has been highly regarded by customers for providing digital solutions and BPO services tailored to healthcare insurance companies and medical institutions. Through the acquisition of this Division, NTT Group aims to expand its business in the relevant industries of North America, and at the same time also strengthen its services that utilize its cutting-edge technology and BPO services.

Competition

The implementation of the Telecommunications Business Act (Act No. 86 of 1984) in April 1985 first introduced competition into the telecommunications service industry in Japan. As a result of subsequent deregulation, NTT Group faces competition in all of its business segments, including its fixed-line regional communications business, long distance and international communications business, mobile communications business and data communications business.

The growing popularity of smartphones and tablets and the increasing speed of wireless broadband services, including LTE, are quickly re-centering the market's focus onto mobile platforms. The telecommunications service market structure is also undergoing major changes, such as the market entry of a variety of business operators, including non-telecommunications operators, and intensifying global competition as a result of the widespread use of services provided by OTT operators. In addition, competition with existing carriers over charges and services has continued to intensify the competitive environment.

Growth in the fixed-line communications market in Japan is slowing due to the ongoing shift toward mobile communications. In addition to intensifying competition in broadband service facilities and services with respect to broadband services, there has been an increase in competition between the various services made possible by faster mobile connections.

The downward trend in NTT Group's revenues from fixed voice communications services continues as its telephone subscriptions and INS-Net subscriptions decline, due in large part to the increasing penetration of mobile telephones and applications, and continuing diversification in communication methods.

The environment surrounding the Japanese mobile communications market has undergone dramatic change due to the rapid proliferation of smartphones and tablet devices and developments related to the government's competition policy (such as the adjustment of discounts contingent on device purchases as a result of the implementation of the Guidelines for Optimization of Purchase Subsidies for Smartphone Terminals, and the

promotion of the entry of Mobile Virtual Network Operators (MVNOs) into the market as a result of the amendment of the Guidelines regarding the application of the Telecommunications Business Act and the Radio Act to MVNO) and other factors.

There are presently three MNOs (mobile network operators) in the market: NTT DOCOMO, the KDDI Group and the SoftBank Group. As of March 31, 2017, NTT DOCOMO had a market share of 46.0%, whereas the KDDI Group and the SoftBank Group had market shares of 29.8% and 24.2%, respectively. NTT Group believes that with the rising mobile phone market penetration rate, the Japanese mobile communications market has largely matured, and as a result the competitive environment for acquiring new customers and further improving services remains difficult. The growth rates for NTT DOCOMO's mobile phone subscriptions for the fiscal years ended March 31, 2015, 2016 and 2017 were 5.5%, 6.6% and 5.5%, respectively. While growth in new subscriptions for conventional voice usage is expected to be limited going forward in view of the rising market penetration rate and Japan's decreasing population, recently, increased demand for a second tablet device, expanding sales of embedded communication modules due to substantial demand in the corporate customer market, and other factors are contributing to the increase in new subscriptions.

The information and communications market is undergoing rapid structural changes. In addition to the existing business model under which NTT East and NTT West provide fiber-optic access services directly to end users, NTT East and NTT West offer the "Hikari Collaboration Model," under which NTT East and NTT West provide fiber-optic access services to various service providers, allowing such service providers to combine their services with fiber optic access services and provide new services to their customers. In addition, NTT DOCOMO offers the "docomo Hikari Pack," a customer-friendly rate package that provides a discount by combining the fiber-optic broadband service "docomo Hikari," which utilizes the "Hikari Collaboration Model," with smartphones or mobile phones. Going forward, there may be further acceleration in the expansion of integrated fixed-line and mobile phone services.

NTT Group expects the solutions business to be a major area of growth in the information services market. For similar reasons, hardware vendors and others are now shifting their focus to this business. Furthermore, information service companies from India that continue to grow rapidly as well as other existing major information service companies are actively entering the global market, resulting in intensifying global competition. Specifically, in the cloud services market, in addition to system integrators and communications carriers, various types of businesses are entering the market, such as participants who were not originally IT service providers and cloud service businesses.

For risks associated with continued competition, see "Item 3—Key Information—Risk Factors—Risks associated with the business environment and NTT Group's corresponding business strategies—NTT Group's revenues may suffer from changes in market structure and increased competition."

Regulations

The Ministry of Internal Affairs and Communications (the "MIC") is the main regulatory body in Japan responsible for the information and telecommunications industry. The Telecommunications Business Act gives the Minister the authority to regulate telecommunications companies. The Telecommunications Business Act came into effect in 1985 at the same time that NTT was incorporated as a private company and significant changes in the legislative and regulatory framework for telecommunications in Japan opened the Japanese information and telecommunications services industry to competition. Since then, the Government has taken various measures to promote competition in the Japanese telecommunications market. As a result, NTT Group faces increasing competition in many of its business sectors from new companies that have entered or are about to enter the market.

NTT and certain of its subsidiaries are subject to regulations that affect their business under the NTT Act, the Radio Act (Act No. 131 of 1950), and the Telecommunications Business Act. A summary of these regulations is provided below. References in parentheses are to the applicable article of the law described, unless otherwise noted.

Telecommunications Business Act

Business Commencement/Termination

Regulations promulgated under the Telecommunications Business Act require start-up businesses that intend to provide telecommunications services to register with the Minister (Article 9). However, where the scale of the telecommunications circuit facilities which are to be installed and the scope of the area covered thereby do not exceed certain thresholds or fall within a certain category of radio facilities, only a notice to the Minister is required (Article 16). The Telecommunications Business Act also requires telecommunications companies to update their registration in the event that they conduct a merger, stock acquisition or other similar transaction (Article 12(2)). In addition, regulations promulgated under the Telecommunications Business Act require businesses in the telecommunications sector to notify the Minister as well as their service subscribers if they suspend or discontinue their telecommunications business (Article 18).

Setting of Subscriber Rates and Other Terms of Service

Regulations promulgated under the Telecommunications Business Act require businesses in the telecommunications sector to notify the Minister of the terms of the basic telecommunications services they provide (Article 19). Specifically, one ordinance of the Ministry of Internal Affairs and Communications (the “MIC Ordinance”) requires basic telecommunications services to be provided across Japan because they are regarded as essential to the lives of people in Japan. These are known as “universal services.” These services include telephone subscriber lines (base rates) or optical IP telephones equivalent to telephone subscriber lines, Type 1 Public Telephones (public telephones installed pursuant to the MIC standards) and emergency numbers (110, 118, 119). In addition, the Telecommunications Business Act includes regulations relating to consumer protection, including provisions on pre-contract accountability (Article 26), document delivery obligations (Article 26(2)), systems for the termination of initial contracts (Article 26(3)), obligations to handle complaints and inquiries (Article 27), prohibitions on misstatements or on excessive solicitation (Article 27(2)), and measures applicable to business agents, such as trustees (Article 27(3)), among other provisions.

Interconnection

Regulations promulgated under the Telecommunications Business Act require businesses in the telecommunications sector to respond to the requests of other telecommunications carriers regarding the connection of telecommunications circuit facilities (Article 32).

Universal Service Fund (“USF”)

The USF is a system under which telecommunications carriers cover the costs and expenses necessary to provide universal services. In order to ensure the provision of universal services, the Minister designates a support organization to provide funds to cover a portion of such costs and expenses (Article 107). Grants are made to eligible telecommunications carriers (Article 108) that provide universal services, including in unprofitable regions. In connection with this system, each telecommunications carrier is obligated to make the appropriate amount of payments to cover the costs and expenses requested by the support organization (Article 110). This funding requirement is referred to as the universal service fund system. The designated support organization began providing services in 2006 in response to the MIC Ordinance being amended in April 2006 to determine the services applicable to the USF and to set the calculation method of grants and contributions.

Under the NTT Act, NTT East and NTT West became responsible for providing universal services and were designated as eligible telecommunications carriers by the Minister. In the fiscal year ended March 31, 2017, the aggregate amount of compensation to NTT East and NTT West in connection with the USF was ¥6.8 billion, and in the fiscal year ending March 31, 2018, the aggregate amount of compensation to NTT East and NTT West is expected to be ¥6.9 billion.

Regulations Imposed Only on NTT East and NTT West

Rates and Other Terms of Service

Regulations promulgated under the Telecommunications Business Act require NTT East and NTT West to notify the Minister of the terms and conditions of their rate warranty agreements for designated telecommunications services (Article 20). These regulations also require that rates and other terms of service for designated telecommunications services provided by Category I designated telecommunications facilities be established and submitted to the Minister.

The Telecommunications Business Act also provides for the regulation of rates for specified telecommunications services (Article 21) and for price cap regulations. The regulations promulgated under the Telecommunications Business Act require that the Minister be notified whenever the service rates of a business are at or below the standard price index specified by the Minister, and approval of the Minister is required when a business proposes to increase rates above the standard price index.

- “Category I designated telecommunications facilities” comprise fixed terminal transmission line facilities installed by a telecommunications carrier where the facilities that have been installed by such carrier in a prefecture represent one-half or more of the total number of such facilities in the prefecture, and other ancillary facilities installed together with these facilities whose connection with other telecommunications carriers is essential for improving convenience to subscribers, and for the comprehensive and reasonable development of telecommunications services (designated by the Minister). The main telecommunications facilities of NTT East and NTT West have been designated as Category I designated telecommunications facilities.
- “Designated telecommunications services” are services that are provided by a telecommunications business using a Category I designated telecommunications facility established by such telecommunications business, and that have been designated as services for which “it is particularly necessary to protect the interests of customers by ensuring that the rates and other terms of service are fair and appropriate.” The determination of what constitutes a designated telecommunications service is based on a consideration of various factors, including whether alternative services are being adequately provided by other telecommunications carriers. Specifically, this refers to telephone subscriber line services, INS-Net, public telephones, dedicated services, FLET’S Hikari, Hikari Denwa and other services, but excludes services providing supplementary functions that have minimal beneficial impact on subscribers.
- “Specified telecommunications services” are designated telecommunications services or services specified in the MIC Ordinance as having a significant beneficial impact on subscribers. Specifically, this refers to telephone subscriber services, INS-Net and public telephone services provided by NTT East and NTT West.
- “Standard price index” refers to an index published by the Minister that shows the standard charges for each type of designated telecommunications service taking into consideration the appropriate costs and commodity prices to support efficient management.
- “Price cap regulation” is a system that sets maximum limits on rates. As the actual charge indexes for NTT East and NTT West are below the level of the standard charge index applicable to the one-year period beginning on October 1, 2016, no price adjustments pursuant to the price cap regulation have been made.

Interconnection

Regulations promulgated under the Telecommunications Business Act require NTT East and NTT West to obtain approval of all interconnection agreements from the Minister as holders of Category I designated telecommunications facilities (Article 33). The Minister’s approval is subject, among other things, to the condition that the interconnection rates be fair and proper according to the method stipulated in the MIC

Ordinance for computing proper costs under efficient management. NTT East's and NTT West's respective interconnection agreements establish their interconnection rates and conditions for interconnection.

- Telephone Line Interconnection Charges

In May 1998, in a joint status report on deregulation and competition policy issued by the governments of Japan and the United States, the Government stated its intention to introduce a Long-Run Incremental Cost ("LRIC") Methodology. In May 2000, the Telecommunications Business Act was amended to include the introduction of an LRIC Methodology, which has since then brought about decreases in interconnection charges. As communication traffic declined significantly, in order to avoid an increase in communication rates through the increase of interconnection charges, it was decided that Non-Traffic Sensitive ("NTS") costs (costs which do not vary according to the volume of communication traffic) would be removed from interconnection rate costs and be recovered instead through base rates (October 2004 report of the Telecommunications Council). In addition, with respect to a portion of NTS costs, when the USF was reviewed from the standpoint of restricting cost increases for users, it was decided that the cost burden resulting from narrowing the scope of USF subsidies would not be borne only by NTT East and NTT West, but would also be recovered in a fair and equitable manner from other carriers, and that a portion of NTS costs would therefore be reintroduced as interconnection rate costs.

The Telecommunications Council of 2013 determined, as a result of a review, that it would continue to apply the LRIC Methodology for interconnection charges for the period from the fiscal year ending March 31, 2017 until the fiscal year ending March 31, 2019.

- Optical Fiber Line Interconnection Charges

NTT East and NTT West are obligated to lease their optical fiber to other carriers at regulated rates (referred to as "optical fiber interconnection charges") because the optical fiber owned by NTT East and NTT West qualifies as Category I designated telecommunications facilities under the Telecommunications Business Act.

In order to maintain low barriers to entry by other carriers through the lowering of interconnection charges, NTT East and NTT West have employed a future cost method that designates the four-year period from the start of the fiscal year ended March 31, 2017 to the end of the fiscal year ending March 31, 2020 as the computation period in order to calculate subscriber optical fiber interconnection charges. For these interconnection charges, NTT Group has introduced a cost difference adjustment system under which adjustments are made by adding the difference between the actual revenue from interconnection charges and the actual cost of interconnection charges for the following year and future years, which NTT believes will eliminate the risk of unrecoverable amounts.

The Information and Communications Council and Postal Services Council conducted an evaluation of the issue of setting per-unit interconnection charges for optical bifurcated lines in the passive optical network (Gigabit Ethernet-Passive Optical Network, or "GE-PON") and determined that there remained issues that needed to be resolved (March 2012 report by the Information and Communications Council and Postal Services Council). To date, the Information and Communications Council has not set per-unit interconnection charges for optical bifurcated lines.

Regulations promulgated under the Telecommunications Business Act require NTT East and NTT West to notify the Minister of (i) plans related to the functions of Category I designated telecommunications facilities, including any changes or additions to such functions (Article 36), (ii) any agreement to share Category I designated telecommunications facilities with other telecommunications carriers (Article 37), and, (iii) in the event that any wholesale telecommunications provision business utilizing Category I designated telecommunications facilities is started, modified, or terminated, NTT East and NTT West are required to notify the Minister of such start, modification, or termination, as well as the type of wholesale service, the fee applicable to certain wholesale businesses that meet certain conditions, and other information (Article 38(2)). Further, there are regulations governing the organization and publication of information furnished to or obtained by the Minister (Article 39(2)).

Prohibited Activities

NTT East and NTT West, as dominant businesses in the fixed voice and IP/packet communications markets, are prohibited from using interconnection information for other than its intended purposes and from giving unfair preferential treatment to any particular telecommunications carrier (Article 30). Officers of NTT East and NTT West are also prohibited from holding concurrent officer positions at NTT Communications, which was designated by the Minister as a specified relevant carrier (Article 31). NTT East and NTT West are required to carry out necessary and proper monitoring of the subsidiaries to which they outsource services to ensure that such subsidiaries do not participate in prohibited activities, and are also obligated to appropriately manage information relating to interconnection services and to establish an appropriate system to monitor the implementation status of interconnection services (Article 31). Accordingly, NTT Group's ability to provide services exclusively in collaboration with telecommunications carriers within NTT Group is limited by these regulations. NTT intends to provide services in response to market needs while ensuring that all requirements for fair competition, including the regulations with respect to prohibited activities, are satisfied. However, these regulations may, for example, impede the timely provision of new services by NTT Group or have other adverse effects.

Regulations Imposed on NTT DOCOMO

Interconnection

Regulations promulgated under the Telecommunications Business Act require NTT DOCOMO to submit to the Minister for approval any interconnection agreements relating to connection with Category II designated telecommunications facilities (Article 34).

NTT DOCOMO's main telecommunications facilities for mobile phones were designated by the Minister as Category II designated telecommunications facilities requiring a reliable connection with other telecommunications businesses. NTT DOCOMO is required to establish its interconnection rates and terms of interconnection in its interconnection agreements and to submit them to the Minister. The standard for designation as Category II designated telecommunications facilities was revised in 2012 from facilities with a greater than 25% market share to facilities with a greater than 10% market share. As a result, in addition to the two companies other than NTT DOCOMO with a greater than 25% market share (KDDI Corporation and Okinawa Cellular Telephone Company), Softbank Mobile Corporation also became subject to the regulations for Category II designated communications facilities.

In the event that any wholesale telecommunications provision business utilizing Category II designated telecommunications facilities is started, modified, or terminated, regulations promulgated under the Telecommunications Business Act require NTT DOCOMO to notify the Minister of such start, modification, or termination, as well as the type of wholesale service, the fee applicable to certain wholesale businesses that meet certain conditions, and other information (Article 38(2)). Further, there are regulations governing the organization and publication of information furnished to or obtained by the Minister (Article 39(2)).

Regulations related to Category II designated telecommunications facilities are applicable to all telecommunications companies who install Category II designated telecommunications equipment, including but not limited to NTT DOCOMO.

Prohibited Activities

NTT DOCOMO, as a dominant business in the mobile communications market, is prohibited from using interconnection information for other than its intended purposes and from giving unfair preferential treatment to other NTT Group companies as designated by the Minister (Article 30). "Category II designated telecommunications facilities" consist of (a) transmission line facilities connected to mobile phones installed by telecommunications businesses which (i) are installed by the same telecommunications businesses, and

(ii) represent ten percent or more of the total number of transmission line facilities in the entire service area, and
(b) telecommunications facilities which were installed specifically to provide such telecommunications services for reliable connection with other telecommunications businesses designated by the Minister.

Future Developments

In December 2014, the Telecommunications Council issued a report on the “State of Information and Communication Policies for the 2020s.” In light of the report, and in order to promote a fair, competitive environment in the telecommunications business and protect telecommunications service users, the partial amendment to the Telecommunications Business Act enabling the provision of wholesale fiber optics services by NTT East and NTT West and allowing subscribers an option to terminate contracts during an agreed period of time at the beginning of a contractual period became effective starting from May 2016.

Further, the amendment requires the government to assess the status of the implementation of the amendment after three years, and if deemed necessary, to determine what further measures should be taken on the basis of its assessment. The potential impact on NTT Group has not yet been determined at this time.

NTT Act

The Supplementary Provisions of the Act to Amend the Nippon Telegraph and Telephone Company Act were promulgated in June 1997 and came into effect in July 1999. As a result, the Nippon Telegraph and Telephone Company Act was re-titled the “Act on Nippon Telegraph and Telephone Corporation, etc.” and NTT was reorganized as a holding company. This Act has been revised by the Act to Amend the Telecommunications Business Act, which was promulgated in June 2001 and took effect in November 2001, and by other subsequent amendments.

Purpose

The NTT Act requires NTT to own all of the shares issued by NTT East and NTT West, to ensure appropriate and reliable provision of telecommunications services by these companies, and to engage in research activities relating to telecommunications technologies that form the foundation for telecommunications in Japan.

The NTT Act also requires NTT East and NTT West to manage regional telecommunications businesses as joint-stock companies.

Business Activities

The NTT Act requires NTT to engage in the following business activities: (i) subscribing for and holding the shares issued by NTT East and NTT West and exercising rights as a shareholder of such shares; (ii) providing necessary advice, assistance and other related support to NTT East and NTT West; (iii) engaging in research activities relating to telecommunications technologies that form the foundation for telecommunications; and (iv) engaging in business activities incidental to the business activities set forth in (i), (ii) and (iii) above.

In addition to these business activities, the NTT Act provides that NTT may engage in actions necessary to complete such business activities after notifying the Minister.

The NTT Act requires that NTT East and NTT West engage in regional telecommunications business activities (activities conducted by establishing telecommunications facilities without using the facilities of other telecommunications business carriers) in prefectures in the following regions:

- for NTT East: Hokkaido Prefecture, Aomori Prefecture, Iwate Prefecture, Miyagi Prefecture, Akita Prefecture, Yamagata Prefecture, Fukushima Prefecture, Ibaraki Prefecture, Tochigi Prefecture, Gunma Prefecture, Saitama Prefecture, Chiba Prefecture, Tokyo, Kanagawa Prefecture, Niigata Prefecture, Yamanashi Prefecture and Nagano Prefecture; and
- for NTT West: Kyoto Prefecture, Osaka Prefecture and all other prefectures not listed above.

The NTT Act also requires NTT East and NTT West to engage in business activities incidental to those set forth above.

Upon notification to the Minister, the NTT Act permits NTT East and NTT West to engage in business activities necessary to achieve their respective purposes and in regional telecommunications business activities in any region or prefecture not otherwise designated. In addition, upon notification to the Minister, NTT East and NTT West may engage in telecommunications businesses and other business activities utilizing their equipment, technology or employees, to the extent that there is no interference with the smooth implementation of their regional telecommunications business activities and the maintenance of fair competition in regional telecommunications business activities.

Responsibilities

Pursuant to the NTT Act and the regulations promulgated thereunder, the management of NTT, NTT East and NTT West are required to give consideration to each company's contribution to securing the appropriate, fair, and reliable provision of telephone services throughout Japan that are indispensable to civil life, and to the innovative and advanced development of telecommunications in Japan through the promotion of research relating to telecommunications technologies and the dissemination of the results thereof. The NTT Act also requires that each company promote public welfare, in view of the important role that telecommunications services play in contributing to societal and economic development.

Other Matters

Matters Requiring the Approval of the Minister

The NTT Act requires that the Minister approve the following actions of NTT, NTT East or NTT West, as applicable:

- Issuing new shares or bonds with share acquisition rights (Articles 4 and 5). Under the NTT Act, NTT may issue new shares upon notification to the Minister, and may continue to do so until the number of issued shares reaches a certain threshold specified in the applicable ministerial ordinance of the MIC, even if approval is not obtained (Supplementary Provisions, Article 14).
- Adopting resolutions on the appointment or dismissal of corporate directors or corporate auditors of NTT (Article 10). Under the NTT Act, non-Japanese citizens cannot be appointed as corporate directors or corporate auditors of NTT, NTT East or NTT West.
- Adopting resolutions to change the respective articles of incorporation of NTT, NTT East or NTT West, to merge or dissolve each company, or to appropriate any surplus (Article 11).
- Changing the business operation plans of NTT, NTT East or NTT West (Article 12).
- Transferring or mortgaging any significant telecommunications facilities of NTT East or NTT West (Article 14).

In addition to the foregoing, the NTT Act imposes several additional duties on NTT, NTT East and NTT West, including: (i) a duty to submit balance sheets, profit and loss accounts and business reports to the Minister (Article 13); (ii) a duty to abide by orders issued by the Minister (Article 16); and (iii) a duty to comply with requests to submit reports on business activities (Article 17).

Radio Act

Under the Radio Act, any establishment of a radio station requires a license from the Minister (Article 4) and changes to the purpose of the radio station, intended audience and topics of communication require approval from the Minister (Article 17).

Mobile communications businesses are required to have a license from the MIC to use radio frequency spectrum. Spectrum band allocations are governed by the Radio Act and related statutes and regulations.

Matters Relating to NTT's Shares

Restrictions on the Ratio of Foreign Ownership of the Voting Rights of NTT's Shares

If the ratio of foreign ownership of voting rights to the total voting rights of NTT's Shares would equal or exceed one-third, NTT is prohibited from recording the names and addresses of such foreign owners on its shareholder registry and registering such foreign ownership. For purposes of calculating the ratio of foreign ownership, voting rights owned by the following are considered to be voting rights under foreign ownership: (1) any person who is not of Japanese nationality; (2) any foreign government or any of its representatives; (3) any foreign juridical person or association; or (4) subject to the applicable ministerial ordinance of the MIC, any juridical person or association 10% or more of the voting rights of which are directly owned by entities listed in clauses (1) through (3) above.

NTT's Articles of Incorporation provide that NTT may distribute dividends to its shareholders or registered pledgees of shares entered or recorded on the register of shareholders and shareholders or pledgees of shares for whom all or part of their shares were not entered or recorded in the register of shareholders pursuant to Article 6 of the NTT Act.

Government Ownership and Sales of NTT Shares

The NTT Act requires the Government, at all times, to own one-third or more of the total number of issued Shares of NTT. The NTT Act sets forth special provisions regarding the method for calculating the total number of issued Shares of NTT for this purpose (NTT Act, Supplementary Provisions, Article 13), including: (i) if Shares are issued through new Share issuances or the exercise of stock acquisition rights, or in exchange for the acquisition of shares subject to call or put options, the increase in the number of Shares as a result thereof ("Shares Not to be Included in Calculation") will not be included in the total number of issued Shares; and (ii) if there is a stock split or combination of Shares after the increase in Shares described in clause (i), the number obtained by multiplying the ratio of the stock split or the combination of Shares (if there is a stock split or combination of Shares in two or more stages, the ratio is equal to the product of the ratios for all stages) with the Shares Not to be Included in Calculation would not be included in the total number of issued Shares.

As of March 31, 2017, the total number of issued Shares of NTT was 2,096,394,470, of which the Government owned 679,123,568 Shares or 32.39% of the issued Shares (33.70% of outstanding Shares excluding treasury stock). In December 2000, NTT issued 300,000 new Shares (equal to 60 million Shares after a 100-for-1 stock split in 2009 and a 2-for-1 stock split in 2015) in a public offering. These Shares are not included in the total number of issued Shares when calculating the percentage of Government-owned Shares. The total number of Government-owned Shares includes Shares which are unregistered because of a failure in the transfer of title, and such Shares are therefore not actually owned by the Government. These Shares are nominally owned by the Government but are excluded from the total number of Shares owned by the Government when calculating the percentage of Government-owned Shares. If these conditions are taken into account, the percentage of Government-owned Shares is 33.33%.

NTT Group's transactions with Government divisions and agencies are arm's-length transactions, with the relevant division or agency acting as an individual customer. In its capacity as a shareholder, the Government is entitled to exercise voting rights at NTT general shareholders meetings, and as the largest shareholder, theoretically has the power to have a material impact on a large majority of shareholder meeting resolutions. However, the Government historically has not exercised this authority and has not been directly involved in NTT's management.

Government Dispositions of NTT Shares

The NTT Act requires that any disposition of the Government's NTT's Shares must be within the limits determined by the Diet in the relevant annual budget (NTT Act, Article 7).

Background of Sales and Sale Policy

NTT was established with 15.6 million issued Shares; of the 10.4 million Shares that the Government was allowed to sell (the numbers of Shares held less the 5.2 million Shares representing the one-third of issued Shares that the Government was obligated to hold), the Government sold 5.4 million Shares from 1986 to 1988.

In addition, on December 17, 1990, the Ministry of Finance promulgated a sale policy under which, with respect to the 5.0 million Shares that remained unsold at that point: (a) 2.5 million Shares would systematically be sold at an approximate rate of 500,000 Shares per year; (b) if in later years the market environment allowed it, such sales would be carried out earlier than scheduled; and (c) sales of the remaining 2.5 million Shares would be frozen for a period of time. (However, for the fiscal year ended March 31, 1998, no sales were actually carried out, due to the market environment and other factors.)

For the fiscal year ended March 31, 1999, the Government sold one million Shares in December 1998.

For the fiscal year ended March 31, 2000, the Government designated one million Shares as the maximum number of Shares that it would sell; of these, NTT repurchased 48,000 Shares as treasury stock, and the Government sold the remaining 952,000 Shares in November 1999. The above sale policy announced in December 1990 has expired.

For the fiscal year ended March 31, 2001, the Government sold one million Shares in November 2000.

For the fiscal year ended March 31, 2003, the Government designated one million Shares as the maximum number of Shares that it would sell; of these, NTT repurchased 91,800 Shares as treasury stock on October 8, 2002.

For the fiscal year ended March 31, 2004, the Government designated one million Shares as the maximum number of Shares that it would sell; of these, NTT repurchased 85,157 Shares as treasury stock on October 15, 2003.

For the fiscal year ended March 31, 2005, the Government designated one million Shares as the maximum number of Shares that it would sell; of these, NTT repurchased 800,000 Shares as treasury stock on November 26, 2004.

For the fiscal year ended March 31, 2006, the Government designated 1,123,043 Shares as the maximum number of Shares that it would sell; NTT repurchased all 1,123,043 Shares as treasury stock on September 6, 2005.

For the fiscal year ended March 31, 2012, the Government designated 99,334,255 Shares as the maximum number of Shares that it would sell; of these, NTT repurchased 57,513,600 Shares as treasury stock on July 5, 2011 and an additional 41,820,600 Shares as treasury stock on February 8, 2012.

For the fiscal year ended March 31, 2014, the Government designated 62,166,721 Shares as the maximum number of Shares that it would sell; of these, NTT repurchased 26,010,000 Shares as treasury stock on March 7, 2014.

For the fiscal year ended March 31, 2015, the Government designated 36,156,721 Shares as the maximum number of Shares that it would sell; of these, NTT repurchased 35,088,600 Shares as treasury stock on November 14, 2014 and an additional 1,068,100 Shares as treasury stock on November 28, 2014.

For the fiscal year ended March 31, 2017, the Government designated 59,000,043 Shares as the maximum number of Shares that it would sell; of these, NTT repurchased 59,000,000 Shares as treasury stock on June 14, 2016.

Capital Investments

NTT Group's capital investments for the fiscal years ended March 31, 2015, 2016 and 2017 are shown in the table below:

	Year ended March 31,		
	2015	2016	2017
	(in millions of yen)		
Regional communications business	¥ 666,164	¥ 622,131	¥ 583,358
Long distance and international communications business	198,112	227,564	244,859
Mobile communications business	661,765	595,264	597,078
Data communications business	140,900	134,030	158,140
Other business	150,582	108,217	116,592
Total	<u>¥1,817,523</u>	<u>¥1,687,206</u>	<u>¥1,700,027</u>

NTT Group used the capital investment amounts shown above, determined on an accrual basis, to acquire tangibles and intangibles. The table below presents the difference between the amount of capital investments shown above and the amount presented on the consolidated statements of cash flows under "Payments for property, plant and equipment" and "Payments for intangibles."

	Year ended March 31,		
	2015	2016	2017
	(in millions of yen)		
Payments for property, plant and equipment	¥1,444,917	¥1,265,622	¥1,301,697
Payments for intangibles	358,209	371,924	400,110
Total	<u>1,803,126</u>	<u>1,637,546</u>	<u>1,701,807</u>
Difference in capital investment amounts	<u>¥ (14,397)</u>	<u>¥ (49,660)</u>	<u>¥ 1,780</u>

Capital investment for each principal business segment in the fiscal year ended March 31, 2017 was as follows:

In the regional communications business segment, NTT Group's emphasis has been on improving customer service and reducing costs, while responding to customer demand for fiber-optic service and making capital investments with the aim of providing high-quality, stable universal services for fixed-line telephone services and other services. NTT Group also worked to increase the efficiency of capital investments by increasing the usage of existing facilities.

In the long distance and international communications business segment, NTT Group made capital investments aimed at domestic and international data center- and cloud network-related growth, among other things.

In the mobile communications business segment, NTT Group promoted the focused expansion of "PREMIUM 4G" in high-traffic areas in urban districts in order to deliver a network that provides "even better amenities" for its customers. In addition, in order to even further expand its service area, NTT Group developed LTE base stations nationwide. NTT Group also sought to strengthen its management foundation by streamlining capital investments, reducing procurement costs and other expenses, and further increasing efficiency in the construction of telecommunication facilities. In addition, with the objective of improving efficiency in operational costs in the future, NTT Group proactively introduced high-performance equipment to enable the consolidation of its facilities and increases in their capacity.

In the data communications business segment, NTT Group made capital investments primarily in the financial sector.

NTT Group records its physical plant assets as follows:

	As of March 31, 2017				
	Telecom Facilities	Land	Buildings	Other	Total
	(in millions of yen)				
Regional communications business	¥3,306,588	¥ 423,317	¥ 819,284	¥ 320,933	¥ 4,870,122
Long distance and international communications business	214,865	67,789	275,608	941,473	1,499,735
Mobile communications business	1,641,874	198,178	307,443	1,242,172	3,389,667
Data communications business	89,506	63,782	109,000	865,497	1,128,685
Other business	—	539,619	467,299	289,480	1,296,398
Total	<u>¥5,252,833</u>	<u>¥1,292,685</u>	<u>¥1,979,534</u>	<u>¥3,659,555</u>	<u>¥12,184,607</u>

NTT Group forecasts ¥1,700.0 billion in capital investments for the fiscal year ending March 31, 2018, the same amount as compared to the previous fiscal year, as a result of its plans to continue improving the efficiency of capital investments for the regional communications business segment and the mobile communications business segment, while also increasing capital investments for facilities related to the data communications business, among others. The following is a breakdown of expected investments by principal business segment:

	Year ending March 31, 2018
	(in millions of yen)
Total	<u>¥1,700,000</u>
Principal business segments:	
Regional communications business	¥ 555,000
Long distance and international communications business	249,000
Mobile communications business	570,000
Data communications business	192,000

- Notes: (1) The above figures do not include consumption tax.
(2) NTT Group plans to procure the required funds from cash on hand, the issuance of corporate bonds and long-term debt.

Property, Plants and Equipment

The properties of NTT Group are used to provide nationwide telecommunications services in Japan and are generally in good operating condition.

As of March 31, 2017, the total balance sheet amount of NTT Group's fixed assets was ¥ 37,005.6 billion. The breakdown of these fixed assets is 29.8% telecommunications equipment (primarily central office equipment including switching installations); 43.4% telecommunications service lines; 16.6% building and structures; 5.5% machinery, vehicles and tools (vehicles, office equipment, fixtures, etc.); 3.5% land; and 1.1% construction in progress.

NTT Group networks are continually being updated, and NTT Group believes that its networks are appropriate for its present operations. NTT Group will increase capital investments for data center and cloud network-related growth and for growth in other areas, while continuing to make efficient domestic capital investments.

Procurement

As part of its strategy to strengthen its corporate competitiveness and to meet the demands of today's rapidly developing information and communications sector, NTT Group is making an effort to increase management efficiency and provide superior services to its customers. To realize this goal, NTT Group provides fair and competitive opportunities to a wide range of both domestic and foreign suppliers, and seeks economically rational procurement of competitive products and services that meet its business needs.

To continue to fulfill its social responsibility goals, NTT Group is taking steps to avoid the use of conflict minerals, to comply with the disclosure requirements of Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding such use and also to promote product procurement that reflects the consideration of environmental, human rights and other issues.

Research and Development

NTT Group pursued a range of R&D pursuant to its Medium-Term Management Strategy "Towards the Next Stage 2.0." NTT Group established the "corevo[®]" brand, a collective term for NTT Group's AI technology, and promoted collaboration with partners in various industries. Furthermore, in order to commercialize the results of development, NTT Group developed business plans tailored to market trends based on its Comprehensive Commercialization System and worked to promote development for practical use.

Initiatives to Expand B2B2X Business

In the area of edge computing technology, which accomplishes the real-time and wide-ranging processing of data in the IoT age, NTT Group agreed to collaborations with FANUC CORPORATION to further the optimization of the manufacturing field, and with TOYOTA MOTOR CORPORATION to further technological development and technological evaluation in the field of connected cars.

In partnership with Mitsubishi Heavy Industries, Ltd., NTT Group developed a prototype for a control system that automatically detects and defends against cyberattacks on industrial equipment including public infrastructure.

Utilizing the "angle-free object search technology (corevo[®])," which can recognize and search for objects photographed from any angle with a high level of precision, NTT Group implemented joint testing with Seven & i Holdings Co., Ltd. to search for and provide information on products in convenience stores, and with Tokyo Metro Co., Ltd. within subway stations to provide current location data with photos taken of station map signs and to provide limited-time offers through photos taken of advertising posters.

Aiming to increase manufacturing facility operating rate and product quality, NTT Group provided Hitachi Zosen Corporation with "abnormal sound detection technology (corevo[®])," which objectively visualizes and analyzes the characteristics of both operating sounds and malfunctions of manufacturing facility devices.

NTT Group implemented joint practical testing among six group companies to further the realization of services using a device coordination technology (corevo[®]) centered on communication robots.

Research and Development to Improve Efficiency and Enhance Profitability of Domestic Network Businesses

NTT Group developed an "operation-collaboration function," which facilitates cost reductions by service providers through the use of the Hikari Collaboration Model by cataloging the services of telecommunications operators and service providers, including competitors, and consolidating the management of multiple services from the point they are ordered through the start of service and maintenance.

NTT Group developed software which makes high-quality and low-cost network services possible by using general-purpose products utilized in data centers and other facilities.

NTT Group developed “malfunction source estimation technology (corevo®)” which largely reduces the time required to investigate the cause of a network malfunction by autonomously extracting the causal relationship between the network malfunction and the alarm sent from the device.

Research and Development that Enable Highly Immersive New Experiences

NTT Group developed a training system for professional baseball players using “athlete first-person vision synthesis technology,” which enables players to experience simulations of pitches with a high degree of realism, and carried out practical testing with RAKUTEN BASEBALL, INC. (Tohoku Rakuten Golden Eagles).

NTT Group developed “MaPiece™” technology, which allows even those without specialized knowledge to easily collect accessibility information on steps and stairs required to provide directions to wheelchair users, as well as 2.5D map representation technology that realizes simple relief map display that is easy to understand even for foreign visitors to Japan.

Utilizing “Kirari!®” technology, which provides ultra-high presence “as if you were there” experiences, NTT Group implemented practical testing of its overseas real-time broadcasting technology to broadcast video from a studio in Japan to the 2017 SXSW (South by Southwest) in Austin, Texas as well as broadcasting the “KABUKI LION SHI-SHI-O: The Adventures of the Mythical Lion show” performed in Las Vegas, Nevada by SHOCHIKU Co., Ltd. to Japan.

In order to be able to provide entirely new services that touch the senses and emotions of humans and create new awe-inspiring experiences in public spaces moving forward into 2020, NTT Group began joint research with the international media art research institute Ars Electronica Futurelab.

NTT Group conducted practical testing of digital signage which simultaneously delivers information at the time of disaster and provides information based on the language and location of foreign tourists to ensure that urban functions are comfortable and safe.

Promoting Cutting-edge Research

NTT Group developed a “Quantum Neural Network” calculator based on an entirely new principle of using light to quickly solve problems which are difficult for traditional computers, such as searching for chemical compounds in drug development.

NTT Group was the first in the world to solve the macroscopic realism problem of whether the quantum mechanical behavior of a single electron appears in the everyday macroscopic world.

To discover how the brains of superior athletes regulate their mental state and control their bodily movements to deliver top-level performance, NTT Group launched the “Sports Brain Science Project” to elucidate the brain’s information processing in order to “Train the Brain to Win,” and started R&D.

ITEM 4A—UNRESOLVED STAFF COMMENTS

None.

ITEM 5—OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview of Business Results

NTT Group accelerated its self-transformation as a “Value Partner” and worked to place the entire NTT Group towards a profit growth track based on the medium-term management strategy “Towards the Next Stage 2.0” formulated and announced in May 2015.

Status of Initiatives to Expand Global Business and Increase Overseas Profit Generation

NTT Group seeks to establish and expand its global cloud service as a cornerstone of its business operations, and strengthened its efforts to accelerate overseas profit generation through the following initiatives.

In order to enhance NTT Group's global provision of security services, NTT Group established NTT Security Corporation for the integration of NTT Group's specialized security technologies and service platforms.

NTT Group promoted cross-selling through collaboration among group companies through its global network, cloud migration, and IT outsourcing projects and received orders from customers in a range of industries from various global regions, including Public Transport Victoria in Australia, as well as the finance, manufacturing, and shipping industries.

While streamlining and optimizing its services and operations in NTT Group's global cloud business, in procurement, NTT Group has promoted the unified specifications of procured goods and narrowing down of models to cut procurement costs, working to reform its business structure to strengthen the competitiveness of the entire NTT Group.

Status of Initiatives to Improve Efficiency and Enhance Profitability of Domestic Network Businesses

NTT Group worked to enhance profitability by creating high value-added services as well as optimizing capital investments and reducing costs for its domestic network businesses.

Through its efforts with the "Hikari Collaboration Model" and "+d" to promote collaboration among various businesses, NTT Group worked to create high value-added services.

In addition to simplifying and streamlining networks, NTT Group worked to increase the efficiency of capital investment by increasing the usage of existing facilities and reducing procurement costs.

NTT Group continued to work to reduce costs by controlling marketing costs through the development of the "Hikari Collaboration Model" and by increasing business efficiency.

In addition, in order to support the above initiatives, NTT Group worked to increase the transparency of information regarding group management, further standardize the group's accounting principles, and bolster cash management including overseas subsidiaries. Furthermore, through project teams formed in FY2015, NTT Group reviewed initiatives aimed at cost reduction and generating profits.

Status of Initiatives to Expand B2B2X Business

The Japanese government has been developing and implementing a variety of policies centered on the Olympic and Paralympic Games Tokyo 2020 and the Japanese government's "Vitalization of Local Economies" initiatives. NTT Group plans to make use of these opportunities to accelerate migration to the B2B2X model and, together with businesses in other fields and local governments, strengthen measures aimed at creating services that will become the standard of the next generation.

In the sports business, NTT Group developed its B2B2X business through collaborations with the J. League and the U.K.-based Perform Group. As a test case, at NACK5 Stadium Omiya, the home stadium of the J. League soccer club Omiya Ardija, NTT Group implemented the creation of smart stadiums, working to create a new way to enjoy the match through fans' smartphones and to stimulate the local communities by mutually referring customers to nearby businesses.

NTT Group also began to roll out smart stadiums in J. League stadiums nationwide, establishing Wi-Fi access in Yurtec Stadium Sendai as the first project. Additionally, NTT Group launched a new sports content

distribution service including video from J. League matches. NTT Group made the “DAZN for docomo” service provided to smartphone users, and provided the “DAZN for docomo” and “DAZN” services for IP TV users through “Hikari-TV.”

NTT Group promoted collaboration in the entertainment field including traditional arts such as joint testing with SHOCHIKU Co., Ltd. on a collaboration between NTT Group’s cutting-edge audiovisual recognition technology and kabuki.

In addition to NTT Group’s agreement with FANUC CORPORATION, which involves collaborative projects in the area of making factories smarter by utilizing edge computing technology and application distribution technology, NTT Group promoted collaborations in a range of industrial fields, including initiatives to make agriculture smarter by monitoring crop-raising conditions through sensor information, aerial drone photography, and image analysis.

In July 2016, the “Sapporo City ICT Utilization Platform Study Panel” was established with the goal of utilizing Sapporo City’s ICT to resolve regional social issues using NTT Group’s ICT technology in fields starting with tourism and sports, and including traffic and snow control, health, and childcare. NTT Group promoted the utilization of ICT in the tourism field in Sapporo City by collecting and analyzing big data (the flow of people and purchasing data centered on tourists) from Sapporo City and regional commercial facilities. Additionally, to establish Sapporo’s brand as a tourism and sports city, at the 2017 Sapporo Asian Winter Games held in February 2017, NTT Group proposed a new way to watch sports using cutting-edge ICT, working to invigorate sports tourism.

Note: NTT, NTT East, NTT West, NTT Communications, and NTT DOCOMO are Gold Partners (Telecommunications Services) for the Olympic and Paralympic Games Tokyo 2020.

Status of Initiatives for Sustained Improvement in Corporate Value

While working to minimize medium- to long-term business risks by appropriately responding to social and environmental issues at NTT Group, NTT Group is promoting initiatives toward sustained improvement in corporate value by making effective contributions to the resolution of social and environmental issues through NTT Group’s business activities. Taking into account the UN’s “Sustainable Development Goals: SDGs,” NTT Group has been engaged in various activities including modifying the “NTT Group CSR Charter” in May 2016 and affirming NTT Group’s agreement with the SDGs in September 2016.

Status of Initiatives for Cybersecurity

While promoting cutting-edge R&D and moving forward with the development of the latest R&D results, NTT Group promoted a group-wide initiative through the “Group CISO Committee.” Furthermore, through the newly established NTT Security Corporation, NTT Group has created a system to provide cutting-edge security technology to NTT Group’s customers. Additionally, in terms of the nationwide issue of developing IT security engineers, NTT Group promoted human resource development within NTT Group and participated in the study panel for inter-industry human resources development, contributing to security personnel development on a national level.

Status of Initiatives to Ensure Diverse Personnel Can Demonstrate their Talents

Recognizing diversity management as a key part of NTT Group’s management strategy, NTT Group has striven to ensure diverse personnel can demonstrate their talents. For example, in terms of sexual minorities such as LGBT persons, in addition to receiving the highest level “GOLD” evaluation in the “PRIDE Index,” which evaluates companies’ approaches to sexual minorities such as LGBT persons, NTT Group promoted initiatives such as clarifying that the systems including leave for marriage also apply to same-sex partners. Furthermore, in

terms of NTT Group's "Work Style Reform," NTT Group is actively promoting the usage of the teleworking and flextime systems, regardless of rank or position, to create an easier working environment for all of NTT Group's employees.

Status of Initiatives for the Environment

In September 2016, NTT Group announced the "NTT Group Environmental Statement" and "The Eco Strategy 2030," pledging to contribute to lowering the environmental burden on society while contributing to adapting to climate change and preserving the ecosystem by providing ICT services and cutting-edge technology. While continuing to promote energy saving and cost cutting by introducing cutting-edge electrical power units, NTT Group is also contributing to energy saving in society through sales of these units.

In addition to the above, NTT Group has taken group-wide initiatives to ensure the high stability and reliability of NTT Group's networks. While quickly and efficiently recovering networks following the 2016 Kumamoto Earthquake, NTT Group also provided support to those affected by the disaster by installing a temporary free Wi-Fi hotspot in the evacuation center.

Business Outlook

Business Development Pursuant to the Medium-Term Management Strategy

In line with its Medium-Term Management Strategy "Towards the Next Stage 2.0," NTT Group will continue to work to reform its business structure and increase its capital efficiency through stock repurchases, aiming to grow its EPS (earnings per share) to 400 yen or more by the fiscal year ending March 31, 2018.

Initiatives to Expand Global Business and Increase Overseas Profit Generation

To realize solid sales growth in its overseas business, NTT Group will work to further enhance its global business promotion system as well as its services and products. Furthermore, by expanding its global accounts and promoting up-selling and cross-selling, NTT Group will work to enhance its sales and marketing. Additionally, NTT Group will continue to work to reform its business structure by maximizing cost efficiency and strengthening group governance and risk management.

Initiatives to Improve Efficiency and Enhanced Profitability of Domestic Network Business

In the highly competitive domestic fixed-line communications market and mobile communications market, NTT Group will continue to make efforts toward profit generation through increased efficiency in capital investment and cost reductions.

Specifically, in relation to the increased efficiency in capital investment, NTT Group will work to make networks simplified and streamlined, to utilize the results of research and development including software control technology, to further increase the usage efficiency of existing facilities, and to unify specifications of procured goods and narrow down models in order to cut procurement costs. Additionally, NTT Group will work to make its IT systems more efficient through the use of the latest technology, including virtualization as well as shared platforms.

With regard to cost reductions, NTT Group is continually enhancing initiatives to improve work processes by further standardizing and systematizing work. NTT Group will boost the competitiveness of its products and services through cost reductions, improve its user service and enhance returns to its customers, while simultaneously working to establish simple, efficient business operations based on its transition to the B2B2X model and other initiatives.

Initiatives to Expand B2B2X Business

NTT Group is supporting the communications services field as a Gold Partner (Telecommunications Services) for the Olympic and Paralympic Games Tokyo 2020, and NTT Group sees the initiative to bring about Society 5.0 (the creation of a new smart society that helps to resolve social issues), which is being promoted through public-private partnerships, as a great opportunity to utilize its collective strength and organically use its national-scale fixed-line and mobile broadband networks, as well as its technology and know-how in the information systems field.

In particular, by expanding its collaborations with businesses in other fields and local governments, NTT Group will accelerate the transition to the B2B2X model and work to create new value and emotions aimed at resolving social issues. Through the above efforts, NTT Group will create services that will be inherited as the standard of the next generation and connect to sustained growth in its domestic business.

Promotion of Fundamental Research & Development

NTT Group will develop the core technologies required for the achievement of its Medium-Term Management Strategy, including cloud, security, AI, and IoT in order to contribute to the acceleration of profit creation. NTT Group will also develop technology to reduce equipment cost by segmentalizing functions of network equipment and to reduce the time required for network building, maintenance, and operations. Simultaneously, through the promotion of collaboration with other companies toward the creation of new value, NTT Group will consistently transform output of R&D into new businesses and proactively expand both in Japan and abroad.

Initiatives for Sustained Improvement in Corporate Value

In accordance with the guidelines set out in “NTT Group CSR Charter,” NTT Group will help resolve the many social and environmental issues that exist both in and outside of Japan and promote collective initiatives toward improved corporate value and the sustainable development of society.

Initiatives for Cybersecurity

To continue to counter increasingly diverse and large-scale cyberattacks on international events, governments, and companies, while promoting the introduction of the latest R&D results, NTT Group will enhance its initiative to develop security personnel with high-level skills.

Initiatives to Ensure Diverse Personnel Can Demonstrate their Talents

NTT Group respects and utilizes personnel with diverse values and individuality, creating a work environment that ensures diverse personnel can demonstrate their talents, irrespective of gender, age, race, nationality, disability status, sexual orientation, or gender identity, advancing initiatives to deepen understanding of work-life management among all of its employees, and promoting its “Work Style Reform.”

Initiatives for the Environment

In accordance with the “NTT Group Environmental Statement,” NTT Group is promoting initiatives to contribute to lowering the environmental burden and adapting to climate change through the services and technologies provided by the Group companies such as its ICT services, as well as to preserve ecosystems in cooperation with all of its stakeholders including its business partners and local communities. Furthermore, NTT Group is continually working to improve energy efficiency and resource circulation throughout its business activities.

In addition to the above initiatives, to secure high levels of stability and reliability for its network, NTT Group will work to provide even safer and more secure services through the accumulation of everyday network operational knowhow and implementation of disaster drills based on its collaborative frameworks with external agencies.

Results of Operations

The fiscal year ended March 31, 2017 compared with the fiscal year ended March 31, 2016

Operating Results

	Year Ended March 31,		Change	Percent Change
	2016	2017		
	(in billions of yen)			
Operating revenues:	11,541.0	11,391.0	(150.0)	(1.3)%
Fixed voice related services	1,330.0	1,233.9	(96.1)	(7.2)%
Mobile voice related services	837.8	865.3	27.5	3.3%
IP/Packet communications services	3,757.8	3,809.0	51.1	1.4%
Sales of telecommunications equipment	953.0	806.5	(146.5)	(15.4)%
System integration	3,063.5	3,041.6	(21.9)	(0.7)%
Other	1,598.8	1,634.8	35.9	2.2%
Operating expenses	10,192.8	9,851.2	(341.6)	(3.4)%
Operating income	1,348.1	1,539.8	191.6	14.2%
Other income (expenses)	(18.9)	(12.0)	6.9	36.4%
Income before income taxes and equity in earnings (losses) of affiliated companies	1,329.3	1,527.8	198.5	14.9%
Income tax expense (benefit)	354.8	468.4	113.5	32.0%
Equity in earnings (losses) of affiliated companies	5.8	(0.0)	(5.8)	—
Net income	980.2	1,059.4	79.2	8.1%
Less—net income attributable to noncontrolling interests	242.5	259.2	16.8	6.9%
Net income attributable to NTT	737.7	800.1	62.4	8.5%

Operating Revenues

NTT Group's operating revenues are divided into six service categories, comprising fixed voice related services, mobile voice related services, IP/packet communications services, sales of telecommunications equipment, system integration and other.

Operating revenues in the fiscal year ended March 31, 2017 decreased 1.3% from the previous fiscal year to ¥11,391.0 billion. This decrease was due to such factors as exchange rate fluctuations due to the appreciation of the yen, despite the increase in revenues from mobile communications services in the mobile communications business segment and continued expansion due to NTT Group's overseas business.

Operating revenues for each service category for the fiscal year ended March 31, 2017 are summarized as follows:

Fixed Voice Related Services

NTT Group's fixed voice related services include a portion of the services it provides in the regional communications business segment and long distance and international communications business segment, such as telephone subscriber lines, INS-Net, conventional leased circuits and high speed digital.

Fixed voice related revenues for the fiscal year ended March 31, 2017 decreased 7.2% from the previous fiscal year to ¥1,233.9 billion, accounting for 10.8% of total operating revenues. This was due to a continued decline in the number of subscriptions for telephone subscriber lines and INS-Net caused by the increased popularization of mobile phones and optical IP telephones, and an increase in free or low-priced communications services offered by OTT operators (content distribution services utilizing other companies' communications infrastructure, allowing a service provider to distribute services without owning its own communications infrastructure).

Mobile Voice Related Services

Mobile voice related services include a portion of the services NTT Group provides in the mobile communications business segment, such as LTE (Xi).

Mobile voice related revenues for the fiscal year ended March 31, 2017 increased 3.3% from the previous fiscal year to ¥865.3 billion, accounting for 7.6% of total operating revenues. This was due to, among other things, growth in Voice ARPU.

IP/Packet Communications Services

NTT Group's IP/packet communications services include a portion of the services it provides in the regional communications business segment, such as FLET'S Hikari, a portion of the services it provides in the long distance and international communications business segment, such as Arcstar Universal One, IP-VPN, and OCN, as well as a portion of the services it provides in the mobile communications business segment, such as LTE (Xi) packet communications services.

In the fiscal year ended March 31, 2017, revenues from IP/packet communications services increased 1.4% from the previous fiscal year to ¥3,809.0 billion, accounting for 33.4% of total operating revenues. This increase was due to, among other things, the increased use of packets under the "Kake-hodai & Pake-aeru" billing plan and an increase in the number of subscriptions to docomo Hikari in the mobile communications business segment, despite a decrease in revenues due to the progress of transfers to the Hikari Collaboration Model in the regional communications business segment.

Sales of Telecommunications Equipment

This category includes a portion of the services NTT Group provides in the regional communications business segment and the mobile communications business segment.

In the fiscal year ended March 31, 2017, revenues from telecommunications equipment sales decreased 15.4% from the previous fiscal year to ¥806.5 billion, accounting for 7.1% of total operating revenues. This decrease was primarily due to a decrease in the number of wholesale sales of handsets, such as smartphones, in the mobile communications business segment.

System Integration

NTT Group's system integration services include its data communications business segment and a portion of the services it provides in the long distance and international communications business segment and the regional communications business segment.

In the fiscal year ended March 31, 2017, revenues from system integration decreased 0.7% from the previous fiscal year to ¥3,041.6 billion, accounting for 26.7% of total operating revenues. This decrease was due to factors such as the impact of exchange rate fluctuations on overseas business, despite growth in both domestic and overseas business.

Other

Other services principally comprise building maintenance, real estate rentals, systems development, leasing activities and the Smart Life area in the mobile communications business segment.

In the fiscal year ended March 31, 2017, revenues from other services increased 2.2% from the previous fiscal year to ¥1,634.8 billion, accounting for 14.4% of total operating revenues. This increase was due mainly to an increase in revenues associated with operations in the Smart Life area in the mobile communications business segment.

Operating Expenses

Operating expenses in the fiscal year ended March 31, 2017 decreased 3.4% from the previous fiscal year to ¥9,851.2 billion. The reasons for the decrease are discussed below. Personnel expenses and expenses for purchase of goods and services and other expenses, described below, are included in cost of services, cost of equipment sold, cost of system integration, and selling, general and administrative expenses in the consolidated statements of income.

Personnel Expenses

Personnel expenses in the fiscal year ended March 31, 2017 decreased 1.0% from the previous fiscal year to ¥2,276.8 billion. This decrease was mainly due to a decrease in personnel expenses in the regional communications business segment due to employee retirements among other factors, despite the continued increase of personnel expenses in the data communication business segment.

Expenses for Purchase of Goods and Services and Other Expenses

In the fiscal year ended March 31, 2017, expenses for purchase of goods and services and other expenses decreased 1.1% from the previous fiscal year to ¥5,612.0 billion. This decrease was mainly due to efforts to improve operational efficiency leading to reduced expenses in the regional communications business segment, long distance and international communications business segment, mobile communications business segment and elsewhere, despite an increase in the number of consolidated overseas subsidiaries.

Depreciation and Amortization Expenses

Depreciation and amortization expenses in the fiscal year ended March 31, 2017 decreased 17.2% from the previous fiscal year to ¥1,462.2 billion. This decrease was mainly due to the change in NTT Group's method for calculating depreciation of property, plant, and equipment from the declining-balance method to the straight-line method, in addition to improved efficiency in capital investments in the regional communications business and mobile communications business.

Operating Income

As a result of the foregoing, operating income for the fiscal year ended March 31, 2017 increased 14.2% from the previous fiscal year to ¥1,539.8 billion.

Other Operating Revenues and Expenses

Other Income (Expenses)

Other expenses for the fiscal year ended March 31, 2017 decreased to ¥(12.0) billion, from ¥(18.9) billion in the previous fiscal year.

Income before Income Taxes and Equity in Earnings (Losses) of Affiliated Companies

Net income before income taxes in the fiscal year ended March 31, 2017 increased 14.9% from the previous fiscal year to ¥1,527.8 billion for the reasons discussed above.

Income Tax Expense (Benefit)

In the fiscal year ended March 31, 2017, income tax expense increased 32.0% from the previous fiscal year to ¥468.4 billion. This increase in income tax expense was due to an increase in net income before income taxes, in addition to the reduction to "Income tax expenses (benefit): Deferred" that occurred in the fiscal year ended

March 31, 2016 due to the decrease of the valuation allowance resulting from the change in the estimate of realizability of deferred tax assets by NTT West and NTT DOCOMO. As a result, effective tax rates for the fiscal year ended March 31, 2016 and for the fiscal year ended March 31, 2017 were 26.69%, and 30.66%, respectively.

Equity in earnings (losses) of affiliated companies

Equity in earnings (losses) of affiliated companies for the fiscal year ended March 31, 2017 was approximately equivalent to the previous fiscal year, decreasing to ¥(0.0) billion compared to ¥5.8 billion for the previous fiscal year.

Net Income and Net Income Attributable to NTT

As a result, net income for the fiscal year ended March 31, 2017 increased 8.1% from the previous fiscal year to ¥1,059.4 billion. Net income attributable to NTT (excluding the portion attributable to non-controlling interests) for the fiscal year ended March 31, 2017 increased 8.5% from the previous fiscal year to ¥800.1 billion.

Segment Information

NTT Group has five business segments: regional communications business, long distance and international communications business, mobile communications business, data communications business and other business. (For further details, see Note 18 to the Consolidated Financial Statements.)

The regional communications business segment comprises fixed voice related services, IP/packet communications services, sales of telecommunications equipment, system integration services and other services.

The long distance and international communications business segment principally comprises fixed voice related services, IP/packet communications services, system integration services and other services.

The mobile communications business segment comprises mobile voice related services, IP/packet communications services, sales of telecommunications equipment and other services.

The data communications business segment comprises system integration services.

The other business segment principally comprises building maintenance, real estate rentals, systems development, leasing activities and other services related to research and development.

An overview of the operational results for each business segment is as follows (intersegment revenues are included in the operating revenues, operating expenses and operating income of operational results for each business segment):

The fiscal year ended March 31, 2017 compared with the fiscal year ended March 31, 2016

		<u>Fiscal Year Ended March 31, 2017</u>	
<u>Service Types</u>		<u>Operating Revenues (billions of yen)</u>	<u>Comparison with Previous Fiscal Year (%)</u>
Regional communications business	Fixed voice related services	1,210.6	(6.7)%
	IP/packet communications services	1,540.8	(1.5)%
	System integration services	166.2	3.1%
	Other services	390.6	1.7%
	Total (including intersegment revenues)	3,308.2	(2.9)%
	Intersegment	571.5	14.4%
	Total (excluding intersegment revenues)	2,736.7	(5.9)%
Long distance and international communications business	Fixed voice related services	262.6	(7.9)%
	IP/packet communications services	397.2	6.8%
	System integration services	1,303.3	(8.6)%
	Other services	166.2	(1.5)%
	Total (including intersegment revenues)	2,129.3	(5.4)%
	Intersegment	89.1	(0.5)%
	Total (excluding intersegment revenues)	2,040.2	(5.6)%
Mobile communications business	Mobile voice related services	875.2	3.0%
	IP/packet communications services	2,101.3	7.5%
	Other services	1,608.1	(6.7)%
	Total (including intersegment revenues)	4,584.6	1.3%
	Intersegment	48.7	12.1%
	Total (excluding intersegment revenues)	4,535.8	1.2%
Data communications business	System integration services (including intersegment revenues)	1,718.7	6.3%
	Intersegment	109.6	5.4%
	Total (excluding intersegment revenues)	1,609.2	6.4%
Other business	Other services (including intersegment revenues)	1,282.3	(0.9)%
	Intersegment	813.1	(0.8)%
	Total (excluding intersegment revenues)	469.2	(1.2)%
Total Consolidated Operating Revenues		11,391.0	(1.3)%

Note: The above figures do not include consumption tax or other taxes.

(1) Regional Communications Business Segment

Operating revenues in the regional communications business segment for the fiscal year ended March 31, 2017 decreased to ¥3,308.2 billion (a decrease of 2.9% from the previous fiscal year) due to a decrease in revenues from fixed voice-related services, among other factors.

On the other hand, operating expenses decreased to ¥2,948.7 billion in the fiscal year ended March 31, 2017 (a decrease of 6.2% from the previous fiscal year), as a result of reducing expenses by controlling marketing

costs through the development of the Hikari Collaboration Model and by sustained operational efficiency, as well as a decrease in depreciation and amortization expenses due to the change in calculating the depreciation method.

As a result, segment operating income in the fiscal year ended March 31, 2017 increased 35.7% to ¥359.5 billion.

The state of operations for each service in the regional communications business segment was as follows:

(Fixed Voice Related Services)

Fixed voice related revenues for the fiscal year ended March 31, 2017 in this segment decreased to ¥1,210.6 billion (a decrease of ¥87.5 billion (6.7%) from the previous fiscal year), primarily due to the reasons below.

As a result of the shift in customer demand to mobile telephones, IP phones and broadband access services and to free or low-priced communications services offered by OTT operators, the aggregate number of fixed line subscriptions (fixed-line telephone & INS-Net) as of March 31, 2017 stood at 21,336 thousand, a decrease of 1,382 thousand from the previous fiscal year.

The numbers of fixed-line telephone and INS-Net subscriptions were as follows:

	<u>As of March 31,</u>		<u>Change</u>	<u>Percent Change</u>
	<u>2016</u>	<u>2017</u>		
	(in thousands)			
NTT East:				
Telephone subscriptions	9,875	9,315	(559)	(5.7)%
INS-Net subscriptions	1,414	1,293	(121)	(8.6)%
NTT West:				
Telephone subscriptions	10,068	9,482	(586)	(5.8)%
INS-Net subscriptions	1,361	1,246	(116)	(8.5)%

- (1) Number of Telephone subscriptions is the total of individual lines and central station lines (including lines under the Subscriber Telephone Light Plan).
- (2) INS-Net includes INS-Net 64 and INS-Net 1500. In terms of the number of channels, transmission rate, and line use rate (base rate), INS-Net 1500 is in all cases roughly ten times greater than INS-Net 64. For this reason, one INS-Net 1500 subscription is calculated as ten INS-Net 64 subscriptions (including INS-Net 64 Lite Plan subscriptions).

For the fiscal year ended March 31, 2017, aggregate fixed-line ARPU (telephone subscriber lines plus INS-Net subscriber lines) was ¥2,610 for NTT East and ¥2,580 for NTT West, a decrease of ¥40 (1.5%) and ¥30 (1.1%), respectively, from the corresponding figures in the previous fiscal year. This decline was due to, among other factors, the shift by high-volume users to IP telephone services and the migration of users from fixed-line services to mobile phone services.

See “—Segment Information—The fiscal year ended March 31, 2017 compared with the fiscal year ended March 31, 2016—Footnote 2, ‘ARPU: Average monthly revenue per unit’” for a description of ARPU, and “—Segment Information—The fiscal year ended March 31, 2017 compared with the fiscal year ended March 31, 2016—Footnote 3, ‘Method of calculating ARPU—(a) NTT East, NTT West’” for a description of how aggregate fixed-line ARPU is calculated.

(IP/Packet Communications Services)

Revenues for IP/Packet Communications Services in this segment decreased to ¥1,540.8 billion (a decrease of ¥23.6 billion (1.5%) from the previous fiscal year), primarily due to the reasons below.

As a result of NTT’s initiatives to expand its B2B2X business through the Hikari Collaboration Model, as of March 31, 2017, the number of FLET’S Hikari subscriptions (including the Hikari Collaboration Model) had

risen to 20,053 thousand channels, an increase of 794 thousand (4.1%) compared to the previous fiscal year; the number of Hikari Denwa subscriptions increased to 17,759 thousand channels, an increase of 385 thousand channels (2.2%) compared to the previous fiscal year; and the number of FLET'S TV subscriptions increased to 1,521 thousand channels, an increase of 89 thousand channels (6.2%) compared to the previous fiscal year.

The numbers of subscriptions for "FLET'S Hikari (including the Hikari Collaboration Model)," "FLET'S ADSL," "Hikari Denwa," the IP telephone service, and "FLET'S TV Transmission Service" were as follows:

	<u>As of March 31,</u>		<u>Change</u>	<u>Percent Change</u>
	<u>2016</u>	<u>2017</u>		
	(in thousands)			
NTT East:				
FLET'S Hikari (including the Hikari Collaboration Model) ⁽¹⁾	10,666	11,173	507	4.8%
FLET'S ADSL	475	411	(64)	(13.5)%
Hikari Denwa (channels) ⁽²⁾	9,123	9,369	246	2.7%
FLET'S TV Transmission Service ⁽²⁾	910	951	42	4.6%
NTT West:				
FLET'S Hikari (including the Hikari Collaboration Model) ⁽¹⁾	8,593	8,880	287	3.3%
FLET'S ADSL	577	508	(70)	(12.1)%
Hikari Denwa (channels) ⁽²⁾	8,252	8,390	139	1.7%
FLET'S TV Transmission Service ⁽²⁾	522	570	48	9.2%

(1) FLET'S Hikari (including Hikari Collaboration Model) includes B FLET'S, FLET'S Hikari Next, FLET'S Hikari Light, FLET'S Hikari Lightplus and FLET'S Hikari WiFi Access provided by NTT East, B FLET'S, FLET'S Hikari Premium, FLET'S Hikari Mytown, FLET'S Hikari Next, FLET'S Hikari Light and FLET'S Hikari WiFi Access provided by NTT West, and the "Hikari Collaboration Model," the wholesale provision of services by NTT East and NTT West to service providers.

(2) The figures for "Hikari Denwa" and "FLET'S TV Transmission Service" include wholesale services provided to service providers by NTT East and NTT West.

FLET'S Hikari ARPU for the fiscal year ended March 31, 2017 was ¥5,250 for NTT East, ¥260 (4.7%) lower than in the previous fiscal year. FLET'S Hikari ARPU for the fiscal year ended March 31, 2017 for NTT West was ¥5,280, ¥190 (3.5%) lower than in the previous fiscal year. These reductions were due to reduced earnings as a result of the progress of the Hikari Collaboration Model, among other factors.

See "—Segment Information—The fiscal year ended March 31, 2017 compared with the fiscal year ended March 31, 2016—Footnote 3, 'Method of calculating ARPU—(a) NTT East, NTT West'" for a description of how FLET'S Hikari ARPU is calculated.

(Other Services)

With respect to system integration and other services, NTT Group worked to promote the utilization of ICT by providing services that are responsive to the issues and needs of each of its customers, including businesses and local governments.

(2) Long Distance and International Communications Business Segment

Operating revenues in the long distance and international communications business segment for the fiscal year ended March 31, 2017 decreased to ¥2,129.3 billion (a decrease of 5.4% from the previous fiscal year) due to, among other things, the impact of exchange rate fluctuations and a reduction in revenues from fixed voice-related services, despite an increase in revenues from data networks and growth in both domestic and overseas businesses based on the data center business. On the other hand, operating expenses for the fiscal year ended March 31, 2017 also decreased to ¥2,088.4 billion (a decrease of 3.1% from the previous fiscal year) due to, among other things, decreased expenses, such as cost reductions due to increased efficiency in service sales costs

for consumer services, and reductions based on exchange rate fluctuations, partially offset by temporary expenses relating to structural changes and by impairments such as goodwill in Dimension Data. As a result, segment operating income in the fiscal year ended March 31, 2017 decreased to ¥40.8 billion (a decrease of 57.8% from the previous fiscal year).

Operations for each service in the long distance and international communications business segment were as follows:

(Fixed Voice Related Services)

Revenues for fixed voice-related services in this segment decreased to ¥262.6 billion (a decrease of ¥22.5 billion (7.9%) from the previous fiscal year). This decrease was primarily due to, among other things, a decrease in the number of fixed telephone subscriptions due to the increasing popularization of mobile phones and optical IP phones and the increase in the number of free or low-priced communications services offered by OTT operators.

(IP/Packet Communications Services)

Revenues for IP/packet communications services in this segment increased to ¥397.2 billion (an increase of ¥25.4 billion (6.8%) from the previous fiscal year). This increase was primarily due to the initiatives described below.

In terms of products for individual customers, for “OCN mobile ONE,” an LTE-compatible mobile data communications service, NTT Communications increased the number of its subscribers by adding new options and rate plans, such as launching Wi-Fi hotspots that can be connected to for free, and billing plans that provide high volumes of data that can be shared by multiple users under the same plan.

For enterprise customers, NTT Communications worked to increase the number of subscriptions for “Arcstar Universal One,” a corporate network service, by launching a number of advanced functions, such as improved functions that provide optionality for opening of new lines immediately on demand and changing bandwidth on demand.

The following table shows the number of subscriptions for IP/packet communications-related services in the long distance and international communications business segment:

	<u>As of March 31</u>		<u>Change</u>	<u>Percent change</u>
	<u>2016</u>	<u>2017</u>		
	(in thousands)			
Network Services (VPN)*1 (lines)	339	353	14	4.2%
OCN (ISP)	8,046	7,739	(307)	(3.8)%
Plala (ISP)*2	3,005	3,106	101	3.4%
Hikari TV*2	3,052	3,023	(29)	(0.9)%

*1 “Network Services (VPN)” includes Arcstar Universal One and Arcstar Global IP-VPN.

*2 Revenues from Plala and Hikari TV are included in “Other” operating revenues.

(System Integration Services)

Revenues for systems integration services in this segment decreased to ¥1,303.3 billion (a decrease of ¥122.0 billion (8.6%) from the previous fiscal year). This decrease was due to the impact of exchange rate fluctuations, despite strengthened efforts to expand global cloud services as the foundation of the business for the entire NTT Group.

Among its primary initiatives, in order to further strengthen its ability to provide full-stack and full-lifecycle services, NTT Group worked to expand its cloud computing platforms through establishing data centers. NTT

Group also worked to strengthen its ability to offer seamless ICT solutions combining network and security and other features and to strengthen its ability to provide services in the growth areas of cloud services and IT outsourcing.

In particular, NTT Group expanded the AI capabilities it had installed on the managed security services operations platform of “WideAngle,” NTT Com’s comprehensive risk-management service, substantially strengthening its cyber-attack analysis logic. In addition, NTT Com has been working to provide services that comprehensively support risk management and counter-measures against increasingly sophisticated and malicious security threats in conjunction with NTT Security Corporation.

(3) Mobile Communications Business Segment

Consolidated operating revenues for the mobile communications business segment for the fiscal year ended March 31, 2017 increased to ¥4,584.6 billion (an increase of 1.3% from the previous fiscal year) due to, among other factors, increased packet usage under the “Kake-hodai & Pake-aeru” billing plan and an increase in the number of docomo Hikari subscriptions, in addition to the growth of NTT Group’s Smart Life area, despite a decrease in the number of wholesale device sales. On the other hand, despite an increase in revenue-linked expenses as a result of the expansion of NTT Group’s docomo Hikari business and growth of the Smart Life area, consolidated operating expenses for the fiscal year ended March 31, 2017 decreased to ¥3,632.9 billion (a decrease of 2.8% from the previous fiscal year) due to, among other factors, the promotion of cost optimization initiatives and the change in calculating the depreciation method. As a result, consolidated operating income increased to ¥951.6 billion (an increase of 20.7% from the previous fiscal year).

Operations for each service in the mobile communications business segment were as follows:

(Mobile Voice Related Services / IP/Packet Communications Services)

Revenues for mobile voice-related services in this segment increased to ¥875.2 billion (an increase of ¥25.8 billion (3.0%) from the previous fiscal year). This increase was primarily due to an increase in Voice ARPU. Furthermore, IP/Packet Communications Services revenues increased to ¥2,101.3 billion (an increase of ¥146.5 billion (7.5%) from the previous fiscal year). This increase was due to an increase in Packet ARPU driven by increased demand for second tablet devices, leading to increased packet usage under the “Kake-hodai & Pake-aeru” billing plan, and an increase in the number of docomo Hikari subscriptions, despite a decrease in revenues due to the effect of strengthening efforts to enhance returns to customers.

As of March 31, 2017, the number of subscriptions to NTT DOCOMO mobile phone services increased by 3.92 million, from 70.96 million at the end of the previous fiscal year to 74.88 million subscriptions. In addition, churn rates decreased by three basis points to 0.59%.

The following table shows the number of mobile communications subscriptions and estimated market share:

	As of March 31,		Change	Percent Change
	2016	2017		
	(in thousands)			
Mobile phone services ⁽¹⁾	70,964	74,880	3,916	5.5%
(Included in the above) Kake-hodai & Pake-aeru	29,704	37,066	7,362	24.8%
LTE (Xi) services	38,679	44,544	5,865	15.2%
FOMA services	32,285	30,336	(1,949)	(6.0)%
Estimated mobile phone market share ⁽¹⁾⁽²⁾	45.3%	46.0%	0.7 points	—
sp-mode services	32,463	35,921	3,458	10.7%
i-mode services	18,770	15,493	(3,277)	(17.5)%

(1) Mobile phone services subscriptions, LTE (Xi) services subscriptions and FOMA services subscriptions include communications module service subscriptions.

(2) Market share data is based on number of subscriptions of other carriers, which is computed based on figures released by the Telecommunications Carriers Association.

Aggregate ARPU of mobile phone services increased by ¥260 (6.2%) to ¥4,430 in the fiscal year ended March 31, 2017, from ¥4,170 in the fiscal year ended March 31, 2016. This was due to an increase of ¥40 (3.3%) in Voice ARPU to ¥1,250 in the fiscal year ended March 31, 2017, from ¥1,210 in the fiscal year ended March 31, 2016, resulting from, among other factors, the effect of continued transition to the “Kake-hodai & Pake-aeru” billing plan, despite a decrease in revenues due to the effect of strengthening efforts to enhance returns to customers, and an increase of ¥220 (7.4%) in Data ARPU to ¥3,180 in the fiscal year ended March 31, 2017, from ¥2,960 in the fiscal year ended March 31, 2016, resulting from, among other factors, increased usage of smartphones and increased demand for second devices, such as tablets, despite a decrease in revenues due to the effect of strengthening efforts to enhance returns to customers.

See “—Segment Information—The fiscal year ended March 31, 2017 compared with the fiscal year ended March 31, 2016—Footnote 1, ‘MOU (average monthly minutes of use per unit): Average communication time per subscription’” at the end of this item for a description of how MOU is calculated. See “—Segment Information—The fiscal year ended March 31, 2017 compared with the fiscal year ended March 31, 2016—Footnote 3, ‘Method of calculating ARPU—(b) NTT DOCOMO’” at the end of this item for a description of how ARPU is calculated for mobile phone services.

The following table shows data regarding ARPU and MOU of mobile phone services:

	As of March 31,		Change	Percent Change
	2016	2017		
Aggregate ARPU	¥4,170	¥4,430	¥260	6.2%
Voice ARPU	1,210	1,250	40	3.3%
Data ARPU	2,960	3,180	220	7.4%
Packet ARPU	2,910	2,990	80	2.7%
“docomo Hikari” ARPU	50	190	140	280.0%
MOU (minutes)	133	137	4	3.0%

(Other Services)

Revenues from other services in this segment decreased by ¥114.8 billion (6.7%) from the previous fiscal year to ¥1,608.1 billion. This decrease was due a reduction in the number of devices sold, despite growth in the Smart Life area.

(4) Data Communications Business Segment

Operating revenues in the data communications business segment for the fiscal year ended March 31, 2017 increased to ¥1,718.7 billion (an increase of 6.3% from the previous fiscal year) due to, among other things, an increase in the number of consolidated subsidiaries resulting from the acquisition of the Dell Services Division, and an expansion of the scale of its business with the distribution and services industries and with government agencies, partially offset by a decrease in operating revenues from the impact of exchange rate fluctuations. On the other hand, operating expenses increased to ¥1,610.8 billion (an increase of 7.1% from the previous fiscal year) due to, among other things, an increase in personnel expenses and expenses for purchase of goods and services and other expenses as a result of the increase in the number of consolidated subsidiaries, in addition to M&A-related temporary expenses, partially offset by a smaller impact from unprofitable transactions.

As a result, segment operating income in the fiscal year ended March 31, 2017 decreased 4.3% from the previous fiscal year to ¥107.9 billion.

(5) Other Business Segment

In the other business segment, operating revenues for the fiscal year ended March 31, 2017 decreased to ¥1,282.3 billion (a decrease of 0.9% from the previous fiscal year), primarily due to decreased revenues in the

construction and electricity businesses. On the other hand, operating expenses for the fiscal year ended March 31, 2017 also decreased to ¥1,205.0 billion (a decrease of 1.3% from the previous fiscal year) due to, among other things, a decrease in revenue-linked expenses.

As a result, segment operating income increased to ¥77.3 billion (an increase of 4.4% from the previous fiscal year).

(Reference) Geographic Sales Information

	As of March 31,		Change	Percent Change
	2016	2017		
	(in billions of yen)			
Domestic(*)	9,646.2	9,556.4	(89.8)	(0.9)%
Overseas(*)	1,894.8	1,834.6	(60.2)	(3.2)%
Operating revenues (Total)	11,541.0	11,391.0	(150.0)	(1.3)%

(*) Figures are shown based on the geographic location of the services and products provided.

Domestic operating revenues for the fiscal year ended March 31, 2017 decreased to ¥9,556.4 billion (a decrease of 0.9% from the previous fiscal year), due to, among other things, a decrease in fixed voice related revenues and revenues from the sale of telecommunications equipment. Foreign operating revenues for the fiscal year ended March 31, 2017 decreased to ¥1,834.6 billion (a decrease of 3.2% from the previous fiscal year) due to, among other things, the decrease in operating revenues from the impact of exchange rate fluctuations, partially offset by the impact of the expansion of overseas consolidated subsidiaries.

Notes:

1. MOU (average monthly minutes of use per unit): Average communication time per user
2. ARPU: Average monthly revenue per unit

Average monthly revenue per unit, or ARPU, is used to measure average monthly operating revenues on a per subscriber (user) basis. In the case of NTT Group's fixed-line business, ARPU is calculated by dividing revenue items included in the operating revenues of NTT Group's regional communications business segment (i.e., fixed-line (telephone subscriber lines plus INS-Net subscriber lines) and FLET'S Hikari) by the number of Active Subscribers to the relevant services. In the case of the mobile communications business, ARPU is calculated by dividing communications services revenue items included in operating revenues from NTT Group's mobile communications business segment, such as revenues from LTE (Xi) mobile phone services, FOMA mobile phone services and docomo Hikari services (with certain exceptions), by the number of Active users to the relevant services. The calculation of these figures excludes revenues that are not representative of monthly average usage, such as telecommunications equipment sales, activation fees and universal service charges.

NTT believes that its ARPU figures calculated in this way provide useful information regarding the monthly average usage of its subscribers. The revenue items included in the numerators of NTT Group's ARPU figures are based on its financial results comprising its U.S. GAAP results of operations.

3. Method of calculating ARPU

- (a) NTT East and NTT West

NTT separately computes the following two categories of ARPU for the fixed-line business conducted by each of NTT East and NTT West, using the following measures:

- Aggregate Fixed-line ARPU (Telephone Subscriber Lines + INS-Net Subscriber Lines): Calculated based on revenues from monthly charges and call charges for Telephone Subscriber

Lines and INS-Net Subscriber Lines, which are included in operating revenues from Voice Transmission Services (excluding IP Services), and revenues from FLET'S ADSL and FLET'S ISDN, which are included in operating revenues from IP Services.

- FLET'S Hikari ARPU: Calculated based on revenues from FLET'S Hikari (including FLET'S Hikari optional services), which are included in operating revenues from IP Services and Supplementary Business, revenues from monthly charges, call charges and device connection charges for Hikari Denwa, which are included in operating revenues from IP Services, and revenues from "FLET'S Hikari" optional services, which are included in Supplementary Business revenues.

(1) FLET'S Hikari includes B FLET'S, FLET'S Hikari Next, FLET'S Hikari Light, FLET'S Hikari Lightplus and FLET'S Hikari WiFi Access provided by NTT East, B FLET'S, FLET'S Hikari Premium, FLET'S Hikari Mytown, FLET'S Hikari Next, FLET'S Hikari Light and FLET'S Hikari WiFi Access provided by NTT West, and the "Hikari Collaboration Model" wholesale provision of services provided by NTT East and NTT West to service providers. FLET'S Hikari optional services include wholesale services provided to service providers by NTT East and NTT West.

(2) Revenues from interconnection charges are excluded from the calculation of Aggregate Fixed-line ARPU (Telephone Subscriber Lines + INS-Net Subscriber Lines) and FLET'S Hikari ARPU.

(3) For purposes of calculating Aggregate Fixed-line ARPU (Telephone Subscriber Lines + INS-Net Subscriber Lines), the number of subscribers is the number of subscribers for fixed-line services (telephone subscriber lines or INS Net subscriber lines).

(4) In terms of number of channels, transmission rate, and line use rate (base rate), INS-Net 1500 is in all cases roughly ten times greater than INS-Net 64. For this reason, one INS-Net 1500 subscription is calculated as ten INS-Net 64 subscriptions.

(5) For purposes of calculating FLET'S Hikari ARPU, the number of subscribers is determined based on the number of FLET'S Hikari subscribers (including B FLET'S, FLET'S Hikari Next, FLET'S Hikari Light, FLET'S Hikari Lightplus and FLET'S Hikari WiFi Access provided by NTT East, B FLET'S, FLET'S Hikari Premium, FLET'S Hikari Mytown, FLET'S Hikari Next, FLET'S Hikari Light and FLET'S Hikari WiFi Access provided by NTT West), and "Hikari Collaboration Model" wholesale services provided by NTT East and NTT West to service providers.

(6) Number of Active Subscribers used in the ARPU calculation of NTT East and NTT West is as below:

FY Results: Sum of number of Active Subscribers for each month from April to March

Active Subscribers = (number of subscribers at end of previous month + number of subscribers at end of current month)/2

(b) NTT DOCOMO

NTT computes ARPU for NTT DOCOMO as follows:

Aggregate ARPU = Voice ARPU + Packet ARPU + "docomo Hikari" ARPU.

Voice ARPU: Voice ARPU-related revenues (basic monthly charges and voice communications charges) / Number of Active Users

Packet ARPU: Packet ARPU-related revenues (flat monthly fees and packet communication charges) / Number of Active Users

docomo Hikari ARPU: docomo Hikari ARPU-related revenues (basic monthly charges and voice communication charges) / Number of Active Users

The sum of Packet ARPU and docomo Hikari ARPU is referred to as “Data ARPU.”

(1) Number of Active Users used in the ARPU calculation of NTT DOCOMO is as below.

FY Results: Sum of number of Active Users for each month from April to March

Active Users = (number of users at end of previous month + number of users at end of current month)/2.

(2) The number of “users” used to calculate ARPU is the total number of subscriptions, excluding the subscriptions listed below:

No. of active users = subscriptions

- a. Subscriptions of communication module services, “Phone Number Storage,” “Mail Address Storage,” “docomo Business Transceiver” and wholesale telecommunications services and interconnecting telecommunications facilities that are provided to Mobile Virtual Network Operators (MVNOs); and
- b. Data Plan subscriptions in the case where the customer contracting for such subscription in his/her name also has a subscription for Xi or FOMA services in his/her name.

Revenues from communication module services, “Phone Number Storage,” “Mail Address Storage,” “docomo Business Transceiver” and wholesale telecommunications services and interconnecting telecommunications facilities that are provided to Mobile Virtual Network Operators (MVNOs) are not included in NTT DOCOMO’s ARPU calculation.

The fiscal year ended March 31, 2016 compared with the fiscal year ended March 31, 2015

Operating Results

	Year Ended March 31,		Change	Percent Change
	2015	2016		
	(in billions of yen)			
Operating revenues:	11,095.3	11,541.0	445.7	4.0%
Fixed voice related services	1,441.4	1,330.0	(111.4)	(7.7)%
Mobile voice related services	872.1	837.8	(34.2)	(3.9)%
IP/Packet communications services	3,672.2	3,757.8	85.7	2.3%
Sales of telecommunications equipment	997.0	953.0	(44.0)	(4.4)%
System integration	2,691.8	3,063.5	371.7	13.8%
Other	1,421.0	1,598.8	177.9	12.5%
Operating expenses	10,010.8	10,192.8	182.1	1.8%
Operating income	1,084.6	1,348.1	263.6	24.3%
Other income (expenses)	(17.9)	(18.9)	(1.0)	(5.3)%
Income before income taxes and equity in earnings (losses) of affiliated companies	1,066.6	1,329.3	262.6	24.6%
Income tax expense (benefit)	397.3	354.8	(42.5)	(10.7)%
Equity in earnings (losses) of affiliated companies	5.9	5.8	(0.1)	(2.0)%
Net income	675.2	980.2	305.0	45.2%
Less—net income attributable to noncontrolling interests	157.1	242.5	85.4	54.3%
Net income attributable to NTT	518.1	737.7	219.7	42.4%

Operating Revenues

NTT Group’s operating revenues are divided into six service categories, comprising fixed voice related services, mobile voice related services, IP/packet communications services, sales of telecommunications equipment, system integration and other.

Operating revenues in the fiscal year ended March 31, 2016 increased 4.0% from the previous fiscal year to ¥11,541.0 billion. This increase was due to such factors as an increase in domestic business revenues as a result of the increase in mobile communications and system integration revenues, in addition to the growth in overseas business.

Operating revenues for each service category for the fiscal year ended March 31, 2016 are summarized as follows:

Fixed Voice Related Services

NTT Group's fixed voice related services include a portion of the services it provides in the regional communications business segment and long distance and international communications business segment, such as telephone subscriber lines, INS-Net, conventional leased circuits and high speed digital.

Fixed voice related revenues for the fiscal year ended March 31, 2016 decreased 7.7% from the previous fiscal year to ¥1,330.0 billion, accounting for 11.5% of total operating revenues. This was due to a continued decline in the number of subscriptions for telephone subscriber lines and INS-Net caused by the increased popularization of mobile phones and optical IP telephones, and an increase in free or low-priced communications services offered by OTT operators (content distribution services utilizing other companies' communications infrastructure, allowing a service provider to distribute services without owning its own communications infrastructure).

Mobile Voice Related Services

Mobile voice related services include a portion of the services NTT Group provides in the mobile communications business segment, such as LTE (Xi).

Mobile voice related revenues for the fiscal year ended March 31, 2016 decreased 3.9% from the previous fiscal year to ¥837.8 billion, accounting for 7.3% of total operating revenues. This was due to, among other things, the discount effect of the "Monthly Support" discount program.

IP/Packet Communications Services

NTT Group's IP/packet communications services include a portion of the services it provides in the regional communications business segment, such as FLET'S Hikari, a portion of the services it provides in the long distance and international communications business segment, such as Arcstar Universal One, IP-VPN, and OCN, as well as a portion of the services it provides in the mobile communications business segment, such as LTE (Xi) packet communications services.

In the fiscal year ended March 31, 2016, revenues from IP/packet communications services increased 2.3% from the previous fiscal year to ¥3,757.8 billion, accounting for 32.6% of total operating revenues. This increase was due to, among other things, an increase in subscriptions for FLET'S Hikari (including Hikari Collaboration Model) in the regional communications business segment and the promotion of upgrades to higher-level plans of the "Kake-hodai & Pake-aeru" billing plan.

Sales of Telecommunications Equipment

This category includes a portion of the services NTT Group provides in the regional communications business segment and the mobile communications business segment.

In the fiscal year ended March 31, 2016, revenues from telecommunications equipment sales decreased 4.4% from the previous fiscal year to ¥953.0 billion, accounting for 8.3% of total operating revenues. This decrease was due to a decrease in the number of wholesale sales of handsets, such as smartphones, in the mobile communications business segment.

System Integration

NTT Group's system integration services include its data communications business segment and a portion of the services it provides in the long distance and international communications business segment and the regional communications business segment.

In the fiscal year ended March 31, 2016, revenues from system integration increased 13.8% from the previous fiscal year to ¥3,063.5 billion, accounting for 26.5% of total operating revenues. This increase was due to factors such as the growth in both domestic and overseas business.

Other

Other services principally comprise building maintenance, real estate rentals, systems development, leasing activities and the Smart Life area in the mobile communications business segment.

In the fiscal year ended March 31, 2016, revenues from other services increased 12.5% from the previous fiscal year to ¥1,598.8 billion, accounting for 13.9% of total operating revenues. This increase was due mainly to an increase in revenues associated with operations in the Smart Life business in the mobile communications business segment and an increase in revenues in the real estate business.

Operating Expenses

Operating expenses in the fiscal year ended March 31, 2016 increased 1.8% from the previous fiscal year to ¥10,192.8 billion. The reasons for the increase are discussed below. Personnel expenses and expenses for purchase of goods and services and other expenses, described below, are included in cost of services, cost of equipment sold, cost of system integration, and selling, general and administrative expenses in the consolidated statements of income.

Personnel Expenses

Personnel expenses in the fiscal year ended March 31, 2016 increased 0.9% from the previous fiscal year to ¥2,299.7 billion. This increase was mainly due to an increase in personnel expenses due to the increase in consolidated overseas subsidiaries and the increase in overseas business operations, despite the focus on reducing the number of personnel employed in the regional communications business segment.

Expenses for Purchase of Goods and Services and Other Expenses

In the fiscal year ended March 31, 2016, expenses for purchase of goods and services and other expenses increased 4.1% from the previous fiscal year to ¥5,675.9 billion. Efforts to improve operational efficiency led to reduced expenses in the regional communications business segment, long distance and international communications business segment and mobile communications business segment. However, overall expenses increased compared with the previous fiscal year as a result of, among other things, an increase in the number of consolidated overseas subsidiaries.

Depreciation and Amortization Expenses

Depreciation and amortization expenses in the fiscal year ended March 31, 2016 decreased 3.4% from the previous fiscal year to ¥1,766.3 billion. This decrease was mainly due to a reduction in investments as a result of making more efficient capital investments in the regional communications business and mobile communications business, which offset the increase in depreciation and amortization expenses due to the increase in capital investments for data centers and other investments in the long distance and international communications business segment.

Operating Income

As a result of the foregoing, operating income for the fiscal year ended March 31, 2016 increased 24.3% from the previous fiscal year to ¥1,348.1 billion.

Other Operating Revenues and Expenses

Other Income (Expenses)

Other income (expenses) for the fiscal year ended March 31, 2016 slightly decreased to ¥(18.9) billion, from ¥(17.9) billion in the previous fiscal year.

Income before Income Taxes and Equity in Earnings (Losses) of Affiliated Companies

Net income before income taxes in the fiscal year ended March 31, 2016 increased 24.6% from the previous fiscal year to ¥1,329.3 billion for the reasons discussed above.

Income Tax Expense (Benefit)

In the fiscal year ended March 31, 2016, income tax expense decreased 10.7% from the previous fiscal year to ¥354.8 billion. This decrease in income tax expense was primarily due to the reduction to “Income tax expenses (benefit): Deferred” due to the decrease of the valuation allowance resulting from the change in the estimate of realizability of deferred tax assets by NTT West and NTT DOCOMO. As a result, effective tax rates for the fiscal year ended March 31, 2015 and for the fiscal year ended March 31, 2016 were 37.25%, and 26.69%, respectively.

Equity in earnings (losses) of affiliated companies

Equity in earnings (losses) of affiliated companies for the fiscal year ended March 31, 2016 was approximately equivalent to the previous fiscal year, decreasing slightly to ¥5.8 billion compared to ¥5.9 billion for the previous fiscal year.

Net Income and Net Income Attributable to NTT

As a result, net income for the fiscal year ended March 31, 2016 increased 45.2% from the previous fiscal year to ¥980.2 billion. Net income attributable to NTT (excluding the portion attributable to non-controlling interests) for the fiscal year ended March 31, 2016 increased 42.4% from the previous fiscal year to ¥737.7 billion.

Segment Information

NTT Group has five business segments: regional communications business, long distance and international communications business, mobile communications business, data communications business and other business. (For further details, see Note 18 to the Consolidated Financial Statements.)

The regional communications business segment comprises fixed voice related services, IP/packet communications services, sales of telecommunications equipment, system integration services and other services.

The long distance and international communications business segment principally comprises fixed voice related services, IP/packet communications services, system integration services and other services.

The mobile communications business segment comprises mobile voice related services, IP/packet communications services, sales of telecommunications equipment and other services.

The data communications business segment comprises system integration services.

The other business segment principally comprises building maintenance, real estate rentals, systems development, leasing activities and other services related to research and development.

An overview of the operational results for each business segment is as follows (intersegment revenues are included in the operating revenues, operating expenses and operating income of operational results for each business segment):

The fiscal year ended March 31, 2016 compared with the fiscal year ended March 31, 2015

Service Types		Fiscal Year Ended March 31, 2016	
		Operating Revenues (billions of yen)	Comparison with Previous Fiscal Year (%)
Regional communications business	Fixed voice related services	1,298.0	(7.7)%
	IP/packet communications services	1,564.4	1.1%
	System integration services	161.2	(1.4)%
	Other services	384.2	(1.3)%
	Total (including intersegment revenues)	3,407.9	(2.8)%
	Intersegment	499.6	5.6%
	Total (excluding intersegment revenues)	2,908.2	(4.1)%
Long distance and international communications business	Fixed voice related services	285.1	(7.2)%
	IP/packet communications services	371.9	2.7%
	System integration services	1,425.3	22.9%
	Other services	168.6	(0.7)%
	Total (including intersegment revenues)	2,250.9	12.6%
	Intersegment	89.5	(2.5)%
	Total (excluding intersegment revenues)	2,161.4	13.4%
Mobile communications business	Mobile voice related services	849.4	(3.9)%
	IP/packet communications services	1,954.8	5.5%
	Other services	1,722.9	4.6%
	Total (including intersegment revenues)	4,527.1	3.3%
	Intersegment	43.5	0.9%
		Total (excluding intersegment revenues)	4,483.7
Data communications business	System integration services (including intersegment revenues)	1,616.8	7.0%
	Intersegment	104.0	(5.2)%
	Total (excluding intersegment revenues)	1,512.8	8.0%
Other business	Other services (including intersegment revenues)	1,294.5	1.7%
	Intersegment	819.6	(4.4)%
	Total (excluding intersegment revenues)	474.8	14.5%
Total Consolidated Operating Revenues		11,541.0	4.0%

Note: The above figures do not include consumption tax or other taxes.

(1) Regional Communications Business Segment

Despite an increase in IP/packet communications revenues attributable to the increase in “FLET’S Hikari (including Hikari Collaboration Model)” subscriptions, operating revenues in the regional communications business segment for the fiscal year ended March 31, 2016 decreased to ¥3,407.9 billion (a decrease of 2.8% from the previous fiscal year) due to a decrease in fixed voice related revenues resulting from the decline in fixed-line telephone subscriptions. On the other hand, operating expenses decreased to ¥3,142.9 billion in the fiscal year ended March 31, 2016 (a decrease of 5.8% from the previous fiscal year), as a result of reducing

expenses by controlling marketing costs through the development of the Hikari Collaboration Model and by sustained operational efficiency, as well as a decrease in personnel expenses resulting from a decrease in the number of employees and a decrease in depreciation and amortization expenses resulting from making more efficient capital investments.

As a result, segment operating income in the fiscal year ended March 31, 2016 increased 56.9% to ¥265.0 billion.

The state of operations for each service in the regional communications business segment was as follows:

(Fixed Voice Related Services)

Fixed voice related revenues for the fiscal year ended March 31, 2016 in this segment decreased to ¥1,298.0 billion (a decrease of ¥107.8 billion (7.7%) from the previous fiscal year), primarily due to the reasons below.

As a result of the shift in customer demand to mobile telephones, IP phones and broadband access services and to free or low-priced communications services offered by OTT operators, the aggregate number of fixed line subscriptions (fixed-line telephone & INS-Net) as of March 31, 2016 stood at 22,718 thousand, a decrease of 1,625 thousand from the previous fiscal year.

The numbers of fixed-line telephone and INS-Net subscriptions were as follows:

	<u>As of March 31,</u>		<u>Change</u>	<u>Percent Change</u>
	<u>2015</u>	<u>2016</u>		
	(in thousands)			
NTT East:				
Telephone subscriptions	10,492	9,875	(618)	(5.9)%
INS-Net subscriptions	1,559	1,414	(144)	(9.3)%
NTT West:				
Telephone subscriptions	10,794	10,068	(726)	(6.7)%
INS-Net subscriptions	1,499	1,361	(137)	(9.2)%

For the fiscal year ended March 31, 2016, aggregate fixed-line ARPU (telephone subscriber lines plus INS-Net subscriber lines) was ¥2,650 for NTT East and ¥2,610 for NTT West, a decrease of ¥50 (1.9%) and ¥40 (1.5%), respectively, from the corresponding figures in the previous fiscal year. This decline was due to, among other factors, the shift by high-volume users to IP telephone services and the migration of users from fixed-line services to mobile phone services.

See “—Segment Information—The fiscal year ended March 31, 2016 compared with the fiscal year ended March 31, 2015—Footnote 2, ‘ARPU: Average monthly revenue per unit’” for a description of ARPU, and “—Segment Information—The fiscal year ended March 31, 2016 compared with the fiscal year ended March 31, 2015—Footnote 3, ‘Method of calculating ARPU—(a) NTT East, NTT West’” for a description of how aggregate fixed-line ARPU is calculated.

(IP/Packet Communications Services)

Revenues for IP/Packet Communications Services in this segment increased to ¥1,564.4 billion (an increase of ¥17.3 billion (1.1%) from the previous fiscal year), primarily due to the reasons below.

In February 2015, NTT began providing its “Hikari Collaboration Model,” the world’s first full-fledged wholesale provision of fiber-optic access services, in order to rejuvenate the ICT market by promoting the

creation of new value through the use of fiber-optic access services by diverse service providers in a wide variety of industries. NTT continued to implement measures to expand B2B2X business through the Model throughout the fiscal year.

NTT promoted collaborative projects with mobile network operators and ISPs, in addition to business operators in diverse industries including the energy industry, real estate industry, and security industry. As a result, the number of service providers providing wholesale service was 350 at the end of the fiscal year ended March 31, 2016. In the cable television industry, new use cases were born, including the adoption of the Hikari Collaboration Model in the conversion of all service areas to fiber optics. As a result of these initiatives, the number of fiber-optic access service subscriptions using this model was 4.69 million.

As a result of these initiatives, as of March 31, 2016, the number of FLET'S Hikari subscriptions (including the Hikari Collaboration Model) had risen to 19,259 thousand channels, an increase of 543 thousand (2.9%) compared to the previous fiscal year; the number of Hikari Denwa subscriptions increased to 17,374 thousand channels, an increase of 267 thousand channels (1.6%) compared to the previous fiscal year; and the number of FLET'S TV subscriptions increased to 1,432 thousand channels, an increase of 87 thousand channels (6.5%) compared to the previous fiscal year.

The numbers of subscriptions for "FLET'S Hikari (including the Hikari Collaboration Model)," "FLET'S ADSL," "Hikari Denwa," the IP telephone service, and "FLET'S TV Transmission Service" were as follows:

	<u>As of March 31,</u>		<u>Change</u>	<u>Percent Change</u>
	<u>2015</u>	<u>2016</u>		
	(in thousands)			
NTT East:				
FLET'S Hikari (including the Hikari Collaboration Model) ⁽¹⁾ . . .	10,403	10,666	264	2.5%
FLET'S ADSL	550	475	(75)	(13.6)%
Hikari Denwa (channels) ⁽²⁾	9,032	9,123	91	1.0%
FLET'S TV Transmission Service ⁽²⁾	877	910	33	3.7%
NTT West:				
FLET'S Hikari (including the Hikari Collaboration Model) ⁽¹⁾ . . .	8,313	8,593	280	3.4%
FLET'S ADSL	669	577	(92)	(13.7)%
Hikari Denwa (channels) ⁽²⁾	8,076	8,252	176	2.2%
FLET'S TV Transmission Service ⁽²⁾	468	522	54	11.6%

- (1) FLET'S Hikari (including Hikari Collaboration Model) includes B FLET'S, FLET'S Hikari Next, FLET'S Hikari Light, FLET'S Hikari Lightplus and FLET'S Hikari WiFi Access provided by NTT East, B FLET'S, FLET'S Hikari Premium, FLET'S Hikari Mytown, FLET'S Hikari Next, FLET'S Hikari Light and FLET'S Hikari WiFi Access provided by NTT West, and the "Hikari Collaboration Model," the wholesale provision of services by NTT East and NTT West to service providers.
- (2) The figures for "Hikari Denwa" and "FLET'S TV Transmission Service" include wholesale services provided to service providers by NTT East and NTT West.

FLET'S Hikari ARPU for the fiscal year ended March 31, 2016 was ¥5,510 for NTT East, ¥20 (0.4%) higher than in the previous fiscal year. This slight increase was due to, among other things, a decrease in various discount services. FLET'S Hikari ARPU for the fiscal year ended March 31, 2016 for NTT West was ¥5,470, ¥210 (3.7%) lower than in the previous fiscal year. The main reason for this decrease is the continued impact of discount programs.

See "—Segment Information—The fiscal year ended March 31, 2016 compared with the fiscal year ended March 31, 2015—Footnote 3, 'Method of calculating ARPU—(a) NTT East, NTT West'" for a description of how FLET'S Hikari ARPU is calculated.

(Other Services)

With respect to system integration and other services, NTT Group worked to advance business model proposals that effectively promote “vitalization of local economics” through ICT by utilizing the strengths of each locality’s business structures and by focusing on understanding the issues and needs of each local government.

Specifically, in the tourism sector, there is increasingly widespread movement amongst local governments and shopping districts for quick installation of public Wi-Fi in tourist areas in response to the increasing number of foreign tourists. In order to meet this demand, NTT Group has provided support for the installation and operation of Wi-Fi in Fukuoka City and Sapporo City.

(2) Long Distance and International Communications Business Segment

Despite a decline in domestic fixed voice related revenues, operating revenues in the long distance and international communications business segment for the fiscal year ended March 31, 2016 increased to ¥2,250.9 billion (an increase of 12.6% from the previous fiscal year) due to, among other things, an increase in system integration revenues as a result of the expansion of consolidated subsidiaries. On the other hand, operating expenses for the fiscal year ended March 31, 2016 increased to ¥2,154.2 billion (an increase of 14.3% from the previous fiscal year) due to, among other things, an increase in personnel expenses and other costs as a result of an increase in the number of consolidated subsidiaries. As a result, segment operating income in the fiscal year ended March 31, 2016 decreased to ¥96.7 billion (a decrease of 14.9% from the previous fiscal year).

Operations for each service in the long distance and international communications business segment were as follows:

(Fixed Voice Related Services)

Revenues for fixed voice-related services in this segment decreased to ¥285.1 billion (a decrease of ¥22.0 billion (7.2%) from the previous fiscal year). This decrease was primarily due to, among other things, a decrease in the number of fixed telephone subscriptions due to the increasing popularization of mobile phones and optical IP phones and the increase in the number of free or low-priced communications services offered by OTT operators, despite NTT Group’s continued support of a variety of customer needs, including, among other things, revising the rates for the “PL@TINUM LINE” telephone service.

(IP/Packet Communications Services)

Revenues for IP/packet communications services in this segment increased to ¥371.9 billion (an increase of ¥9.9 billion (2.7%) from the previous fiscal year). This increase was primarily due to the initiatives described below.

In terms of products for individual customers, for “OCN mobile ONE,” an LTE-compatible mobile data communications service, NTT Communications substantially increased the number of its subscribers by working to strengthen its sales structure, such as by offering a nationwide same-day delivery counter for “voice-enabled SIM cards,” which allow users to make voice calls.

For enterprise customers, NTT Communications worked to increase the number of subscriptions for “Arcstar Universal One,” a corporate network service currently provided in 196 countries and regions, by launching a number of advanced functions. For example, NTT Communications launched “Multi-Cloud Connect,” an optional service which allows speedy, flexible and lower-cost multi-cloud environments to be built by connecting with a wide array of cloud services, including the company’s own cloud services.

The following table shows the number of subscriptions for IP/packet communications-related services in the long distance and international communications business segment:

	<u>As of March 31</u>		<u>Change</u>	<u>Percent change</u>
	<u>2015</u>	<u>2016</u>		
	(in thousands)			
Network Services (VPN)*1 (lines)	303	339	37	12.0%
OCN (ISP)	8,282	8,046	(236)	(2.9)%
Plala (ISP)*2	2,960	3,005	45	1.5%
Hikari TV*2	3,014	3,052	38	1.2%

*1 “Network Services (VPN)” includes Arcstar Universal One and Arcstar Global IP-VPN.

*2 Revenues from Plala and Hikari TV are included in “Other services” of the Long distance and international communications business described in the operational results table for each business segment above.

(System Integration Services)

Revenues for systems integration services in this segment increased to ¥1,425.3 billion (an increase of ¥265.6 billion (22.9%) from the previous fiscal year). This increase was due to strengthened efforts to expand global cloud services as the foundation of the business for the entire NTT Group. Specifically, NTT Group carried out the initiatives described below.

In order to further strengthen its ability to provide full-stack and full-lifecycle services, NTT Group pursued M&A and worked to expand its cloud computing platforms through establishing data centers. NTT Group also worked to strengthen its ability to offer seamless ICT solutions combining network and security and other features and to strengthen its ability to provide services in the growth areas of cloud services and IT outsourcing.

In particular, NTT Group increased its system integration revenues by expanding its consolidated subsidiaries, including Lux e-shelter 1 S.a.r.l, RagingWire Data Centers, Inc., Arkadin International SAS and Oakton Limited. In addition, in order to strengthen its ability to meet the demand for cloud services and data centers in various global regions, NTT Group began providing services at new data centers that achieve high reliability, through redundancy of electric power facilities and telecommunications equipment, and enhanced security, in Sacramento in North America, Vienna in Europe, and Hong Kong, Mumbai and Bangkok in Asia, thereby working to increase the number of its customers worldwide. Furthermore, with a particular focus on cloud migration and IT outsourcing projects, NTT Group promoted cross-selling through collaboration between NTT Communications and Dimension Data, the leading companies in this segment, and NTT DATA and other leading companies in the data communications segment, and received orders from leading companies in a variety of industries.

(3) Mobile Communications Business Segment

Consolidated operating revenues for the mobile communications business segment for the fiscal year ended March 31, 2016 increased to ¥4,527.1 billion (an increase of 3.3% from the previous fiscal year) due to, among other factors, the expansion of NTT Group’s Smart Life business and a relatively favorable impact on revenues of the “Kake-hodai & Pake-aeru” billing plan compared to the previous fiscal year. Further, despite an increase in revenue-linked expenses as a result of the expansion of NTT Group’s Smart Life business, consolidated operating expenses for the fiscal year ended March 31, 2016 decreased to ¥3,738.8 billion (a decrease of 0.2% from the previous fiscal year) due to, among other factors, the promotion of cost optimization initiatives. As a result, consolidated operating income increased to ¥788.4 billion (an increase of 24.0% from the previous fiscal year).

Operations for each service in the mobile communications business segment were as follows:

(Mobile Voice Related Services / IP/Packet Communications Services)

Revenues for mobile voice-related services decreased to ¥849.4 billion (a decrease of ¥34.4 billion (3.9%) from the previous fiscal year). This decrease was due to a decrease in voice ARPU, primarily due to the discount effect of the “Monthly Support” program, despite efforts to increase the number of subscriptions and to maintain or reduce churn rates.

IP/Packet Communications Services revenues in this segment increased to ¥1,954.8 billion (an increase of ¥101.8 billion (5.5%) from the previous fiscal year). This increase was due to an increase in packet ARPU, primarily due to increased demand for second tablet devices as a result of an improved tablet device lineup and to the promotion of upgrades to higher-level plans of the “Kake-hodai & Pake-aeru” billing plan.

As of March 31, 2016, the number of subscriptions to NTT DOCOMO mobile phone services increased by 4.37 million, from 66.60 million at the end of the previous fiscal year to 70.96 million subscriptions. In addition, churn rates slightly increased to 0.62%, approximately equivalent to the end of the previous fiscal year.

The following table shows the number of mobile communications subscriptions and estimated market share:

	As of March 31,		Change	Percent Change
	2015	2016		
	(in thousands)			
Mobile phone services ⁽¹⁾	66,595	70,964	4,368	6.6%
(Included in the above) Kake-hodai & Pake-aeru	17,827	29,704	11,877	66.6%
LTE (Xi) services	30,744	38,679	7,934	25.8%
FOMA services	35,851	32,285	(3,566)	(9.9)%
Estimated mobile phone market share ⁽¹⁾⁽²⁾	43.6%	45.3%	1.7%	
sp-mode services	28,160	32,463	4,303	15.3%
i-mode services	22,338	18,770	(3,569)	(16.0)%

(1) Mobile phone services subscriptions, LTE (Xi) services subscriptions and FOMA services subscriptions include communications module service subscriptions.

(2) Market share data is based on number of subscriptions of other carriers, which is computed based on figures released by the Telecommunications Carriers Association.

Aggregate ARPU of mobile phone services increased by ¥70 (1.7%) to ¥4,170 in the fiscal year ended March 31, 2016, from ¥4,100 in the fiscal year ended March 31, 2015. This was due to an increase of ¥140 (5.0%) in Data ARPU to ¥2,960 in the fiscal year ended March 31, 2016, from ¥2,820 in the fiscal year ended March 31, 2015, resulting from the reduced impact on revenues of the “Kake-hodai & Pake-aeru” billing plan and the introduction of “docomo Hikari,” despite a decrease of ¥70 (5.5%) in voice ARPU to ¥1,210 in the fiscal year ended March 31, 2016, from ¥1,280 in the fiscal year ended March 31, 2015, resulting from the continuing impact of the “Monthly Support” discount program.

See “—Segment Information—The fiscal year ended March 31, 2016 compared with the fiscal year ended March 31, 2015—Footnote 1, ‘MOU (average monthly minutes of use per unit): Average communication time per subscription’” at the end of this item for a description of how MOU is calculated. See “—Segment Information—The fiscal year ended March 31, 2016 compared with the fiscal year ended March 31, 2015—Footnote 3, ‘Method of calculating ARPU—(b) NTT DOCOMO’” at the end of this item for a description of how ARPU is calculated for mobile phone services.

The following table shows data regarding ARPU and MOU of mobile phone services:

	<u>As of March 31,</u>		<u>Change</u>	<u>Percent Change</u>
	<u>2015</u>	<u>2016</u>		
Aggregate ARPU	¥4,100	4,170	¥ 70	1.7%
Voice ARPU	1,280	1,210	(70)	(5.5)%
Data ARPU	2,820	2,960	140	5.0%
Packet ARPU	2,820	2,910	90	3.2%
“docomo Hikari” ARPU	0	50	50	— %
MOU (minutes)	122	133	11	9.0%

(Other Services)

With respect to sales of telecommunications equipment, a part of other services, in order to meet the diverse needs of its customers, NTT DOCOMO has strived to enrich its handset lineup, adding new models such as Android smartphones, iPhone 6s*, “docomo Feature Phones”, “docomo tablets,” wearable devices and Wi-Fi routers, among other devices.

* TM and © 2016 Apple Inc. All rights reserved. iPhone is a trademark of Apple Inc. The iPhone trademark is used under license from AIPHONE CO, Ltd.

(4) Data Communications Business Segment

Operating revenues in the data communications business segment for the fiscal year ended March 31, 2016 increased to ¥1,616.8 billion (an increase of 7.0% from the previous fiscal year) due to, among other things, an increase in the number of overseas consolidated subsidiaries, the cultivation of new customers, and an expansion of the scale of systems provided to existing customers. On the other hand, operating expenses increased to ¥1,504.1 billion (an increase of 5.6% from the previous fiscal year) due to, among other things, an increase in personnel expenses and expenses for purchase of goods and services and other expenses as a result of the increase in the number of consolidated subsidiaries.

As a result, segment operating income in the fiscal year ended March 31, 2016 increased 30.5% from the previous fiscal year to ¥112.7 billion.

In the data communications business segment, NTT responded to the acceleration of customers’ expansion in the global market and the diversification and increased sophistication of their needs by working to expand its business in the global market and to expand and reliably provide a range of IT services, such as system integration, that are responsive to the changes in the market.

Operating revenues for business operations directed toward the public and social infrastructure field, which provide high value-added IT services that support government, medicine, communications, energy and other social infrastructure and regionalization, increased as a result of business expansion in response to changes in the market in conjunction with new businesses created under the nationwide IT strategy and institutional changes in the utility industry (power system reform), despite an anticipated decline in the government and telecom industries.

Operating revenues for the global business of this segment, which supplies high value-added IT services both within and across various regions overseas, increased due to, among other factors, increased revenues from an increase in the number of consolidated subsidiaries through the acquisition of Carlisle & Gallagher Group, Inc. in the North American market, which is the largest IT services market in the world and is expected to grow even further.

(5) Other Business Segment

In the other business segment, operating revenues for the fiscal year ended March 31, 2016 increased to ¥1,294.5 billion (an increase of 1.7% from the previous fiscal year), primarily due to increased revenues in the real estate business as a result of improved vacancy rates for both new and existing properties in the leasing business and as a result of the expansion of property sales, among other factors. On the other hand, operating expenses for the fiscal year ended March 31, 2016 also increased to ¥1,220.4 billion (an increase of 1.3% from the previous fiscal year) due to, among other things, an increase in revenue-linked expenses.

As a result, segment operating income increased to ¥74.0 billion (an increase of 9.7% from the previous fiscal year).

(Reference) Geographic Sales Information

	As of March 31,		Change	Percent Change
	2015	2016		
	(in billions of yen)			
Domestic ^(*)	9,509.9	9,646.2	136.3	1.4%
Overseas ^(*)	1,585.4	1,894.8	309.4	19.5%
Operating revenues (Total)	11,095.3	11,541.0	445.7	4.0%

(*) Figures are shown based on the geographic location of the services and products provided.

Domestic operating revenues for the fiscal year ended March 31, 2016 increased to ¥9,646.2 billion (an increase of 1.4% from the previous fiscal year), due to, among other things, an increase in IP/packet communications revenues and an increase in domestic system integration revenues. Foreign operating revenues for the fiscal year ended March 31, 2016 increased to ¥1,894.8 billion (an increase of 19.5% from the previous fiscal year) due to, among other things, the expansion of overseas consolidated subsidiaries.

Notes:

1. MOU (average monthly minutes of use per unit): Average communication time per user
2. ARPU: Average monthly revenue per unit

Average monthly revenue per unit, or ARPU, is used to measure average monthly operating revenues attributable to each designated service on a per subscriber (user) basis. In the case of NTT Group's fixed-line business, ARPU is calculated by dividing revenue items included in the operating revenues of NTT Group's regional communications business segment (i.e., fixed-line (telephone subscriber lines plus INS-Net) and FLET'S Hikari) by the number of Active Subscribers to the relevant services. In the case of the mobile communications business, ARPU is calculated by dividing revenue items included in operating revenues from NTT Group's mobile communications business segment, such as revenues from LTE (Xi) mobile phone services and FOMA mobile phone services, that are incurred consistently each month (i.e., basic monthly charges and voice/packet transmission charges), by the number of Active users to the relevant services. The calculation of these figures excludes revenues that are not representative of monthly average usage, such as telecommunications equipment sales, activation fees and universal service charges.

NTT believes that its ARPU figures calculated in this way provide useful information regarding the monthly average usage of its subscribers. The revenue items included in the numerators of NTT Group's ARPU figures are based on its financial results comprising its U.S. GAAP results of operations.

3. Method of calculating ARPU

(a) NTT East and NTT West

NTT separately computes the following two categories of ARPU for the fixed-line business conducted by each of NTT East and NTT West, using the following measures:

- Aggregate Fixed-line ARPU (Telephone Subscriber Lines + INS-Net Subscriber Lines): Calculated based on revenues from monthly charges and call charges for Telephone Subscriber Lines and INS-Net Subscriber Lines, which are included in operating revenues from Voice Transmission Services (excluding IP Services), and revenues from FLET'S ADSL and FLET'S ISDN, which are included in operating revenues from IP Services.
- FLET'S Hikari ARPU: Calculated based on revenues from FLET'S Hikari (including FLET'S Hikari optional services), which are included in operating revenues from IP Services and Supplementary Business, revenues from monthly charges, call charges and device connection charges for Hikari Denwa, which are included in operating revenues from IP Services, and revenues from "FLET'S Hikari" optional services, which are included in Supplementary Business revenues.

(1) FLET'S Hikari includes B FLET'S, FLET'S Hikari Next, FLET'S Hikari Light, FLET'S Hikari Lightplus and FLET'S Hikari WiFi Access provided by NTT East, B FLET'S, FLET'S Hikari Premium, FLET'S Hikari Mytown, FLET'S Hikari Next, FLET'S Hikari Light and FLET'S Hikari WiFi Access provided by NTT West, and the "Hikari Collaboration Model" wholesale provision of services provided by NTT East and NTT West to service providers. FLET'S Hikari optional services include wholesale services provided to service providers by NTT East and NTT West.

(2) Revenues from interconnection charges are excluded from the calculation of Aggregate Fixed-line ARPU (Telephone Subscriber Lines + INS-Net Subscriber Lines) and FLET'S Hikari ARPU.

(3) For purposes of calculating Aggregate Fixed-line ARPU (Telephone Subscriber Lines + INS-Net Subscriber Lines), the number of subscribers is determined using the number of lines for each service.

(4) In terms of number of channels, transmission rate, and line use rate (base rate), INS-Net 1500 is in all cases roughly ten times greater than INS-Net 64. For this reason, one INS-Net 1500 subscription is calculated as ten INS-Net 64 subscriptions.

(5) For purposes of calculating FLET'S Hikari ARPU, the number of subscribers is determined based on the number of FLET'S Hikari subscribers (including B FLET'S, FLET'S Hikari Next, FLET'S Hikari Light, FLET'S Hikari Lightplus and FLET'S Hikari WiFi Access provided by NTT East, B FLET'S, FLET'S Hikari Premium, FLET'S Hikari Mytown, FLET'S Hikari Next, FLET'S Hikari Light and FLET'S Hikari WiFi Access provided by NTT West), and "Hikari Collaboration Model" wholesale services provided by NTT East and NTT West to service providers.

(6) Number of Active Subscribers used in the ARPU calculation of NTT East and NTT West is as below:

FY Results: Sum of number of Active Subscribers for each month from April to March

Active Subscribers = (number of subscribers at end of previous month + number of subscribers at end of current month)/2

(b) NTT DOCOMO

NTT computes ARPU for NTT DOCOMO as follows:

Mobile Aggregate ARPU = Voice ARPU + Packet ARPU + "docomo Hikari" ARPU.

(1) NTT DOCOMO's Voice ARPU is based on operating revenues related to voice services, such as basic monthly charges and voice communication charges, and its Packet ARPU is based on operating revenues related to packet services, such as basic monthly charges, flat monthly fees and packet communication charges attributable to its LTE (Xi) and FOMA services, and its "docomo Hikari" ARPU is based on operating revenues from basic monthly charges and voice communication charges for "docomo Hikari" (including "docomo Hikari" optional services).

(2) NTT DOCOMO's ARPU and MOU calculation methods changed from the second quarter of the fiscal year ended March 31, 2016. Accordingly, the ARPU data for the results for the fiscal year ended March 31, 2015 have also changed.

(3) Number of Active Users used in the ARPU calculation of NTT DOCOMO is as below.

FY Results: Sum of number of Active Users for each month from April to March

Active Users = (number of users at end of previous month + number of users at end of current month)/2.

(4) The number of "users" used to calculate ARPU is the total number of subscriptions, excluding the subscriptions listed below:

No. of active users = subscriptions

- a. Subscriptions of communication module services, "Phone Number Storage," "Mail Address Storage," "docomo Business Transceiver" and wholesale telecommunications services and interconnecting telecommunications facilities that are provided to Mobile Virtual Network Operators (MVNOs); and
- b. Data Plan subscriptions in the case where the customer contracting for such subscription in his/her name also has a subscription for Xi or FOMA services in his/her name.

Revenues from communication module services, "Phone Number Storage," "Mail Address Storage," "docomo Business Transceiver" and wholesale telecommunications services and interconnecting telecommunications facilities that are provided to Mobile Virtual Network Operators (MVNOs) are not included in NTT DOCOMO's ARPU calculation.

Liquidity and Capital Resources

The fiscal year ended March 31, 2017 compared with the fiscal year ended March 31, 2016

Financing, Capital Resources and Use of Funds

Net cash provided by operating activities during the fiscal year ended March 31, 2017 amounted to ¥2,917.4 billion, an increase of ¥205.5 billion from ¥2,711.8 billion in the fiscal year ended March 31, 2016. This increase was primarily the result of, among other things, an increase in the amount of accounts receivable collected in the fiscal year ended March 31, 2017 compared to the fiscal year ended March 31, 2016.

NTT Group used the net cash provided by operating activities mainly to acquire property, plant and equipment, acquire new subsidiaries and to complete stock repurchases.

Net cash used in investing activities during the fiscal year ended March 31, 2017 amounted to ¥2,089.3 billion, an increase of ¥329.5 billion from ¥1,759.8 billion in the fiscal year ended March 31, 2016. This increase was due to, among other things, a ¥64.3 billion increase in payments for property, plant and equipment and in intangible assets computed on a cash basis, in addition to a ¥208.4 billion increase in expenditures on acquisitions of subsidiaries.

The increase in payments for investments in property, plant and equipment and in intangible assets for the fiscal year ended March 31, 2017 resulted from, among other things, an increase in capital expenditures due to measures to consolidate facilities and increase existing facility capacity in the mobile communications business

and the expansion of the scope of large-scale projects in the data communications business, despite a reduction in fiber-optic-related capital expenditures in the regional communications business. For the fiscal year ended March 31, 2017, capital investments amounted to ¥1,700.0 billion on an accrual basis, of which ¥583.4 billion was invested in the regional communications business and ¥597.1 billion was invested in the mobile communications business.

Net cash used in financing activities during the fiscal year ended March 31, 2017 amounted to ¥981.5 billion, an increase in payments of ¥273.9 billion from ¥707.6 billion in the fiscal year ended March 31, 2016. The increase in payments was due to, among other things, a net increase of ¥280.5 billion in payments due to stock repurchases in addition to a net increase of ¥140.2 billion in payments for the acquisition of shares of subsidiaries from noncontrolling interests, partially offset by a net decrease of ¥175.9 billion in expenses from the repayment of short-term and long-term debt. The capital raised from the issuance of long-term debt in the fiscal year ended March 31, 2017 includes ¥128.3 billion in net proceeds from corporate bond offerings and an aggregate of ¥192.2 billion in loans from financial institutions.

As of March 31, 2017, the total balance of the interest-bearing debt of NTT Group was ¥4,088.2 billion, a decrease of ¥75.1 billion compared to the balance of ¥4,163.3 billion as of March 31, 2016. The ratio of interest-bearing debt to shareholders' equity stood at 45.2% as of March 31, 2017 (compared to 47.1% as of March 31, 2016). Interest-bearing debt as of March 31, 2017 comprises short-term debt and long-term debt, as shown in Note 11 to the Consolidated Financial Statements, as well as ¥10.6 billion in deposits received pursuant to depositary agreements.

NTT Group believes that the net cash it expects to generate from operating activities, financing made available to NTT Group from banks and other financial institutions and/or offerings of equity or debt securities in the capital markets will provide the requisite financial resources to meet NTT Group's currently anticipated capital investment and expenditure needs and debt service requirements. Management believes NTT Group's working capital is sufficient for its present requirements.

For the fiscal year ending March 31, 2018, NTT Group expects to make capital investments totaling ¥1,700.0 billion on an accrual basis, which represents a similar amount as for the fiscal year ended March 31, 2017, due to, among other things, an increase in capital investments due to effect of consolidating the Dell Services Division, which became a consolidated subsidiary of NTT Group during the fiscal year ended March 31, 2017, for the entire fiscal year and the expansion of the scope of large-scale projects in the data communications business, partially offset by, among other things, a decrease in capital investments related to network improvements in the regional communications business and improved efficiency in the construction of LTE base stations in the mobile communications business. The total amount of expected capital investments includes ¥555.0 billion by the regional communications business and ¥570.0 billion by the mobile communications business. The actual amount of capital investments may vary from expected levels, since capital investments may be influenced by trends in demand, the competitive environment and other factors. In addition, the actual amount of NTT Group's funding will depend on its future performance, market conditions and other factors, and is therefore difficult to predict.

Liquidity

As of March 31, 2017, NTT Group had cash and cash equivalents balance (including short-term investments with principal maturities of less than three months) of ¥925.2 billion, a decrease of ¥163.1 billion compared to the balance of ¥1,088.3 billion as of March 31, 2016. Cash equivalents represent a temporary cash surplus used to repay debts and make capital investments, among other things, and are used as working capital. Accordingly, the balance of cash equivalents fluctuates each fiscal year depending on particular funding and working capital requirements.

Contractual Obligations

The following table summarizes NTT Group's existing contractual obligations as of March 31, 2017:

Contractual Obligations	Payments Due by Period				
	Total	Less than one year	One to three years	Three to five years	More than five years
	(in millions of yen)				
Long-term debt ⁽¹⁾					
Bonds	1,574,339	425,215	499,489	369,688	279,947
Bank loans	2,276,043	256,689	591,253	470,586	957,515
Interest payments on long-term debt	195,594	40,747	58,428	36,840	59,579
Capital lease obligations ⁽²⁾	48,276	16,840	20,120	8,291	3,025
Operating leases	165,290	41,176	54,907	30,366	38,841
Purchase obligations ⁽³⁾	222,087	134,541	80,850	4,275	2,421
Other long-term obligations ⁽⁴⁾	—	—	—	—	—
Total contractual obligations	4,481,629	915,208	1,305,047	920,046	1,341,328

(1) See Note 11 to the Consolidated Financial Statements for details on Long-term debt.

(2) Capital lease obligations include interest.

(3) Purchase obligations mainly represent outstanding commitments for the purchase of property, plant and equipment and other assets. The amount includes outstanding commitments with a remaining term of one year or less but excludes those which are cancelable.

(4) The amount of other long-term obligations is not shown in the above table, due to the immateriality of certain obligations and uncertainty of certain payments. In addition, NTT Group expects to contribute a total amount of ¥16,531 million to its pension plans in the fiscal year ending March 31, 2018 (see Note 12 to the Consolidated Financial Statements).

As of March 31, 2017, NTT Group had outstanding commitments mainly for the purchase of property, plant and equipment and other assets of approximately ¥222.1 billion. NTT Group expects to fund such commitments with cash provided by operating activities.

The fiscal year ended March 31, 2016 compared with the fiscal year ended March 31, 2015

Financing, Capital Resources and Use of Funds

Net cash provided by operating activities during the fiscal year ended March 31, 2016 amounted to ¥2,711.8 billion, an increase of ¥320.0 billion from ¥2,391.8 billion in the fiscal year ended March 31, 2015. This increase was primarily the result of, among other things, an increase in operating income in the fiscal year ended March 31, 2016 compared to the fiscal year ended March 31, 2015.

NTT Group used the net cash provided by operating activities mainly to acquire property, plant and equipment, repay interest-bearing debt and pay dividends.

Net cash used in investing activities during the fiscal year ended March 31, 2016 amounted to ¥1,759.8 billion, a decrease of ¥108.8 billion from ¥1,868.6 billion in the fiscal year ended March 31, 2015. This decrease was due to, among other things, a ¥165.6 billion decrease in payments for property, plant and equipment and in intangible assets computed on a cash basis, partially offset by a ¥78.4 billion increase in expenditures on acquisitions of subsidiaries.

The decrease in payments for investments in property, plant and equipment and in intangible assets for the fiscal year ended March 31, 2016 resulted from, among other things, improved efficiency in the construction of LTE base stations in the mobile communications business, in addition to reduced fiber-optic-related capital expenditures in the regional communications business. For the fiscal year ended March 31, 2016, capital investments amounted to ¥1,687.2 billion on an accrual basis, of which ¥622.1 billion was invested in the regional communications business and ¥595.2 billion was invested in the mobile communications business.

Net cash used in financing activities during the fiscal year ended March 31, 2016 amounted to ¥707.6 billion, an increase in payments of ¥29.6 billion from ¥678.0 billion in the fiscal year ended March 31, 2015. The increase in payments was due to, among other things, a net increase of ¥411.3 billion in expenses from the repayment of short-term and long-term debt, partially offset by a net decrease of ¥244.5 billion in payments due to stock repurchases and a net decrease of ¥159.4 billion in payments for the acquisition of shares of subsidiaries from noncontrolling interests. The capital raised from the issuance of long-term debt in the fiscal year ended March 31, 2016 includes ¥6.1 billion in net proceeds from corporate bond offerings and an aggregate of ¥392.2 billion in loans from financial institutions.

As of March 31, 2016, the total balance of the interest-bearing debt of NTT Group was ¥4,163.3 billion, a decrease of ¥243.4 billion compared to the balance of ¥4,406.7 billion as of the end of the previous fiscal year. The ratio of interest-bearing debt to shareholders' equity stood at 47.1% as of March 31, 2016 (compared to 50.8% as of the end of the previous fiscal year). Interest-bearing debt as of March 31, 2016 comprises short-term debt and long-term debt, as shown in Note 11 to the Consolidated Financial Statements, as well as ¥10.7 billion in deposits received pursuant to depositary agreements.

Liquidity

As of March 31, 2016, NTT Group had cash and cash equivalents balance (including short-term investments with principal maturities of less than three months) of ¥1,088.3 billion, an increase of ¥239.1 billion compared to the balance of ¥849.2 billion as of the end of the previous fiscal year.

Research and Development

Research and development costs are charged to expenses as incurred. Research and development costs for the fiscal years ended March 31, 2015, March 31, 2016 and March 31, 2017 were ¥233.8 billion, ¥213.4 billion and ¥211.6 billion, respectively.

The following table presents a summary of research and development costs by segment for the fiscal years ended March 31, 2015, March 31, 2016 and March 31, 2017:

	Year ended March 31,		
	2015	2016	2017
	(in millions of yen)		
Regional Communications Business ⁽¹⁾	¥ 99,239	¥ 93,740	¥ 91,298
Long Distance and International Communications Business ⁽²⁾	16,380	15,971	15,976
Mobile Communications Business ⁽³⁾	96,997	83,315	83,050
Data Communications Business ⁽⁴⁾	12,912	12,413	12,360
Other Business ⁽⁵⁾	114,724	109,996	108,932
Sub-total	340,252	315,435	311,616
Elimination	(106,500)	(102,000)	(100,000)
Total	<u>¥ 233,752</u>	<u>¥ 213,435</u>	<u>¥ 211,616</u>

- (1) Research and development relating to IP and broadband services, increasing access services to meet diversifying user needs, high value-added services, and other services.
- (2) Development of high value-added services in fields ranging from IP networks to platforms, and other services.
- (3) Research and development in the area of new products and services related to mobile communications, and research and development aimed at increasing the quality of existing services and enhancing the performance of network functions, among other things.
- (4) Technology development to strengthen competitiveness in systems integration and other fields.
- (5) Research and development relating to: (a) the creation of basic technologies required for the development of advanced networks and new services that will support the development of an ICT society, (b) technologies that contribute to reducing industry's burden on the environment, (c) new principles, new parts and new materials expected to bring about extensive technological innovations in the information and communications sector, and (d) others.

Information on Market and Operation Trends (Trend Information)

In the information and telecommunications market, a wide range of changes took place, with the increased spread and market penetration of devices that utilize fixed-line and mobile broadband, and improved convenience in people's everyday lives and productivity in various industries through the emergence of new services made possible by the evolution of technologies such as cloud services, AI, Big Data and IoT. In addition, the role of information and telecommunications is becoming increasingly important, including strengthening security measures against increasingly sophisticated and complex cyberattacks, strengthening natural disaster countermeasures and managing safe and secure social systems. This change can be seen on a global scale.

The fixed-line communications market is also changing dramatically. In addition to growing competition in broadband service facilities and services centered around the shift to fiber-optic services, there has been an increase in new services that use a variety of wireless devices, as a result of which there has been more diversification of customer usage applications, and an increase in off-load needs resulting from the increase in the amount of data transmitted.

There has been a dramatic change in the environment surrounding the mobile communications market due to the rapid proliferation of smartphones and tablet devices, developments related to the government's competition policy (such as new market entry by Mobile Virtual Network Operators (MVNOs), the obligation to unlock handset SIMs, the adjustment of subsidies for device purchases, the proposals by the Ministry of Internal Affairs and Communications' "Task Force on Service Verification from the Perspective of Consumers and Task Force on Mobile Phone Rates and Other Conditions for Service Offerings" and "Terms for Providing Mobile Services/Follow-Up Meetings on Devices") the rise of inexpensive smartphones from MVNOs and elsewhere, and other factors.

NTT Group anticipates the following major trends in the fiscal year ending March 31, 2018:

- NTT Group expects an increase in consolidated operating revenues for the fiscal year ending March 31, 2018 resulting from an increase in mobile communications services revenues and fiber-optic communications services revenues in the mobile communications business segment, and from the impact of the acquisition of the Dell Services Division on the data communications business segment.
- NTT Group expects a net increase in the overall number of subscriptions to fiber-optic access services, such as "FLET'S Hikari," during the fiscal year ending March 31, 2018, due to improvements of the business support structure for partners through the Hikari Collaboration Model and by creating new demand through the combination of various services, including video services.
- Fixed-line telephone and INS-Net subscriptions are expected to decline in the fiscal year ending March 31, 2018, similar to the decline recorded in the fiscal year ended March 31, 2017, due to, among other things, continued customer migration to mobile phone and IP telephone services or to free or low-priced communications services offered by OTT operators.
- NTT Group expects a net increase in the number of mobile phone service subscriptions in the fiscal year ending March 31, 2018. NTT intends to retain customers by further enhancing the Kake-hodai & Pake-aeru billing plan and by offering it as a set with "DOCOMO Hikari," and to reduce its subscription cancellations by expanding its networks and services to differentiate itself from other companies. In addition, NTT Group is working to support the needs for various services and devices, such as smartphones, tablets, wearable devices, Wi-Fi routers and others. In addition to these initiatives, in order to improve the profitability of the Smart Life business, NTT Group will promote its "+d" initiatives, in which new value is created by collaborating with a variety of businesses, and also expand its content services and finance/online payment services. At the same time, NTT will continue to streamline capital investments and improve cost efficiency in an effort to reduce costs.
- In order to achieve consistent growth in its overseas business in the future, NTT Group is working to strengthen its products and services and to further improve its global business promotion systems. NTT

Group will continue to strengthen its sales and marketing, including its global account expansion and promotion of upselling and cross-selling. Furthermore, NTT Group will also work to promote thorough cost efficiency and strengthen group governance and risk management.

Additional information relating to market trends can be found elsewhere in this Item 5.

The foregoing contains forward-looking statements reflecting the expectations and perceptions of NTT Group's current management based on the various factors described above, market and industry-related conditions, and NTT Group's performance under such conditions (see "Item 3—Key Information—Forward-Looking Statements").

Off-Balance Sheet Arrangements

As of March 31, 2017, NTT Group's contingent liabilities for loans and other loans that NTT Group guaranteed totaled ¥75.8 billion.

Critical Accounting Policies

NTT Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. Note 2 to the Consolidated Financial Statements includes a summary of significant accounting policies used in the preparation of these financial statements. NTT believes that, of its significant accounting policies, the following may involve a higher degree of judgment or complexity.

Revenue recognition

Revenues arising from fixed voice related services, mobile voice related services, IP/packet communications services and other services are recognized at the time these services are provided to customers. Revenues from non-recurring upfront fees, such as activation fees, are deferred and recognized as revenue over the estimated average period of the customer contract for each service. The related direct costs are deferred only to the extent of the non-recurring upfront fee amount and are amortized over the same period. While this policy does not have a material impact on net income, the reported amounts of revenue and cost of services are affected by the level of revenues from non-recurring upfront fees and related direct costs and the estimated average customer relationship period. Factors that affect management's estimate of the average customer relationship period over which such fees and costs are amortized include subscriber churn rates and newly introduced or anticipated products, services and technologies. The current amortization periods are based on an analysis of historical trends and the experience of NTT and its subsidiaries, adjusted for the estimated impact of future events and circumstances. Sales of telecommunications equipment less certain amounts of agency commissions and customer incentives are recognized as revenue upon delivery of the equipment to agent resellers, which is considered to have occurred when the agent resellers have taken title to the product, and the risks and rewards of ownership have been substantially transferred. In connection with revenues from system integration projects, provision for estimated losses, if any, is made in the fiscal year in which the loss first becomes probable and reasonably quantifiable. NTT Group recognizes such losses based on estimates of total expected contract revenues and costs upon completion. NTT Group follows this method because it permits reasonably dependable estimates of revenues and costs to be made at various stages of a contract. Recognized losses are subject to revision as the contract progresses to completion. Revisions in loss estimates are charged to income in the period in which the facts that give rise to the revision become known.

Property, plant and equipment, software and certain other amortizable intangible assets and intangible assets with indefinite useful lives

NTT Group estimates the useful lives and the residual values of property, plant and equipment, software and certain other intangibles with finite useful lives, in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. The useful lives and the residual values are estimated at the time the assets are acquired and are based on historical experience with similar assets as well as

anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation and amortization expenses in future periods. Alternatively, these types of technological changes could result in the recognition of an impairment charge to reflect a write-down in the value of the assets. Effective July 1, 2014, NTT Group revised its estimate of the expected useful life of certain software for telecommunications network and internal-use software based on the actual utilization of the software to reflect an extended expected useful life of up to 7 years. Due to this change, “Depreciation and amortization” for the fiscal year ended March 31, 2015 decreased by ¥51.3 billion. NTT and its subsidiaries in Japan traditionally used the declining-balance method for calculating depreciation of property, plant and equipment. Effective April 1, 2016, NTT and its subsidiaries adopted the straight-line method of depreciation. In line with the change in the depreciation method, NTT and its subsidiaries reviewed the residual carrying amount of property, plant and equipment and made changes where necessary. As a result of the change in the depreciation method, depreciation expenses on a consolidated basis for the fiscal year ended March 31, 2017 decreased by ¥244.2 billion.

NTT Group also reviews such assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If the total of the expected future undiscounted cash flow is less than the carrying amount of the asset, NTT Group records the difference between the carrying value of the asset and its fair value as measured through various valuation techniques, including discounted cash flow models, quoted market value and third-party independent appraisals, as considered necessary, under “Impairment losses—Other.” For the fiscal year ended March 31, 2015, NTT Group recorded an impairment loss of ¥30.2 billion on its multimedia broadcasting business for mobile devices-related long-lived assets. Intangible assets with indefinite lives are not amortized and are tested for impairment at least once a year. NTT Group’s total “Impairment losses—Other” in the fiscal years ended March 31, 2015, 2016 and 2017 (including the impairment loss described above) were ¥38.7 billion, ¥28.0 billion and ¥20.6 billion, respectively.

Goodwill

Goodwill is tested for impairment at the reporting unit level, which is either at the business segment level or one level below, at least annually and more frequently if there are indications of impairment, using a two-step process that begins with an estimation of the fair value of the reporting unit. Under the first step, the fair value of the reporting unit, which is calculated based on assumptions such as discounted cash flow projections, is compared with its carrying amounts (including goodwill). Under the second step, an impairment loss is recognized for any excess of the carrying amount of the reporting unit’s goodwill over the implied fair value of the goodwill. If an entity concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit.

During the fiscal year ended March 31, 2015, NTT DOCOMO realigned its operating segments in order to reflect its changing business management. As a result of this realignment of operating segments, NTT Group reorganized the reporting structure of its mobile communications business segment into communications, smart life and other businesses reporting units. In conjunction with this change, NTT Group reassigned the goodwill attributable to these reporting units prior to the realignment to the communications, smart life and other businesses reporting units using a relative fair value allocation approach based on the composition of each business reporting unit prior to the realignment.

The determinants used for the fair value measurement include management’s estimate of the reporting unit’s continuing ability to generate income from operations and cash flows in future periods, and the strategic significance of the reporting unit to NTT’s business objectives. NTT Group measures fair value based on certain assumptions that are determined to be currently reasonable. However, actual values may differ from those stated in the consolidated financial statements if unexpected changes occur in the business operation environment in the future. NTT Group’s total “Impairment losses—Goodwill” in the fiscal years ended March 31, 2015, 2016 and 2017 were ¥3.5 billion, ¥4.7 billion and ¥53.3 billion, respectively. The material reporting units are Dimension

Data in the long distance and international communications business segment and Global Business in the data communications business segment. As of March 31, 2017, the carrying amount of goodwill attributable to Dimension Data decreased to ¥235.7 billion, due to the recognition of an impairment loss of ¥48.8 billion as the result of the annual impairment test conducted for the fiscal year ended March 31, 2017. As of March 31, 2017, the carrying amount of goodwill attributable to Global Business in the data communications business segment was ¥396.2 billion. As a result of the annual impairment test conducted for the fiscal year ended March 31, 2017, the fair value of the reporting unit attributable to Global Business exceeded their carrying amounts by 13.3%.

Investments

NTT Group holds investments in other companies, which NTT Group accounts for under the cost method, equity method or at fair value. NTT Group recognizes an impairment loss when the decline in value below the carrying amount of the investment is other than temporary, which then establishes a new cost basis in the investment. When determining if the decline in value is other than temporary, NTT Group considers, among other items, the magnitude of the decline in value below the carrying amounts, the length of time the value has been below the carrying amounts, the financial condition of the investee company, the strength of the industry in which it operates, and NTT Group's ability or intent to retain the investment. NTT Group performs a review for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable.

Further, NTT Group utilizes a variety of information, including cash flow projections, independent valuations and, if applicable, stock price analyses, in performing its evaluations. Such projections and valuations necessarily require estimates involving, among others, demographics (e.g., population, penetration rates and penetration speed, churn rates, etc.), technology changes, capital investments, market growth and share, ARPU and terminal values. NTT Group's total impairment losses for "Marketable securities and other investments" in the fiscal years ended March 31, 2015, 2016 and 2017 were approximately ¥2.0 billion, ¥6.0 billion and ¥3.0 billion, respectively. NTT Group reviews factors such as the financial condition and near-term prospects of those investees in order to determine if the value of any of its investments in them has suffered a decline that was other than temporary due to the recent economic and financial environment surrounding the industry of those equity method investees. For the fiscal year ended March 31, 2017, NTT Group recorded an impairment loss of ¥23.9 billion relating to investments in affiliated companies, including Hutchison Telephone Company Limited.

In the past, NTT Group experienced material impairments in the value of its investments in equity method affiliates that were included in "Equity in earnings (losses) of affiliated companies" in its consolidated statements of income and comprehensive income for relevant years. NTT Group may experience similar impairments with respect to "Marketable securities and other investments" and "Investments in affiliated companies" again in the future. NTT Group may also experience material gains or losses on the sale of investments.

Employees' retirement benefits

The total costs of employees' retirement benefits and pension plans represented approximately 1.0%, 0.9% and 1.0% of NTT Group's total operating expenses for the fiscal years ended March 31, 2015, 2016 and 2017, respectively. The amounts recognized in the consolidated financial statements related to employees' retirement benefits and pension plans are determined on an actuarial basis, which utilizes certain assumptions in the calculation of such amounts. The assumptions used in determining net periodic costs and liabilities for retirement benefits and pension plans include the expected long-term rate of return on plan assets, a discount rate, the rate of increase in compensation levels, average remaining years of service, and other factors. Specifically, the expected long-term rate of return on assets and the discount rate are two critical assumptions. Assumptions are evaluated at least annually, and events may occur or circumstances change that may have a significant effect on the critical assumptions. In accordance with accounting principles generally accepted in the United States, actual results that differ from NTT Group's assumptions are accumulated and amortized over future periods, thereby reducing the year-to-year volatility in pension expenses. As of March 31, 2017, the total amount of net actuarial loss was

¥420.9 billion. The net actuarial loss exceeding 10% of the greater of the projected benefit obligation or the fair value of plan assets will be amortized over the expected average remaining service period of employees on a straight-line basis. That amortization will increase future pension costs.

NTT Group used an expected long-term rate of return on pension plan assets of 2.0% to 2.5% for the fiscal years ended March 31, 2016 and March 31, 2017. In determining the expected long-term rate of return on pension plan assets, NTT considers the current and projected asset allocations, as well as expected long-term investment returns and risks for each category of plan assets based on NTT's analysis of historical results. The target allocation ratios for plan assets are developed in consideration of the expected long-term investment returns for each category of plan assets. In the fourth quarter of the fiscal year ended March 31, 2017, with an objective of ensuring more stable pension financing, NTT Group revised the target allocation ratios for plan assets. As a result of this revision, the expected long-term rate of return on pension plan assets decreased from 2.0% to 2.5% to 1.0% to 1.9%, but had an immaterial effect on the consolidated financial statements for the fiscal year ended March 31, 2017. As a result, NTT Group did not revise the expected long-term rate of return on pension plan assets used to determine net periodic benefit cost for the fiscal year ended March 31, 2017. With respect to the target allocation ratio for each plan asset, for Severance Payments and Contract-type Corporate Pension Plans, approximately 65.0%, 10.0%, 5.0% and 20.0% of the plan assets will be allocated to domestic bonds, domestic stocks, foreign stocks and life insurance company general accounts, respectively, and for the NTT Corporate Defined Benefit Pension Plan, approximately 55.8%, 15.0%, 6.2%, 10.6% and 12.4% (weighted-average) of plan assets will be allocated to domestic bonds, domestic stocks, foreign bonds, foreign stocks and life insurance company general accounts, respectively, to moderate the level of volatility in pension plan asset returns and reduce risks. As of March 31, 2017, the actual allocations of plan assets were generally consistent with the projected allocations stated above, and the target allocation ratios for plan assets for the year ending March 31, 2018 are expected to maintain the same levels. The actual returns for the fiscal years ended March 31, 2016 and 2017 were approximately 0% and 3%, respectively. The actual returns on pension plan assets may vary in future periods, depending on market conditions. The fair value of plan assets is measured using market values on the plan measurement date.

Another critical assumption is the discount rate used in the annual actuarial valuation of net periodic costs and benefit obligations. In determining the net periodic costs, NTT Group used a discount rate of 1.0% as of March 31, 2016 and 0.5% as of March 31, 2017. In determining the benefit obligations, NTT Group used a discount rate of 0.5% as of March 31, 2016 and 0.7% as of March 31, 2017. In determining the appropriate discount rate, NTT considers available information about the current yield on high-quality fixed-income investments with maturities corresponding to the expected duration of the pension benefit obligations ("PBO").

The following table illustrates the sensitivity to changes in the discount rate and the expected return on pension plan assets, while holding all other assumptions constant, for NTT Group's pension plans as of March 31, 2017:

Change in Assumption	Change in PBO	Change in Pre-Tax Pension Expenses	Change in Equity (Net of Tax)
	(in billions of yen)		
50 basis point increase / decrease in discount rate	-/+ 240.0	+/- 6.0	+/- 170.0
50 basis point increase / decrease in expected return on assets	—	-/+ 11.0	—

Income taxes

NTT Group recognizes deferred tax assets and liabilities for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts and the tax bases of assets or liabilities and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to be applicable during the periods in which existing temporary differences reverse and loss carryforwards are utilizable. The effect on deferred tax assets and liabilities of a change in tax rates is

recognized in income tax expenses in the period that includes the enactment date. In accordance with the Act on Partial Revision of the Income Tax Act enacted on March 31, 2015, the income tax rates have been changed for fiscal years beginning on or after April 1, 2015. As a result of this change in the tax rate, net deferred tax asset amounts existing on the enactment date decreased by ¥54.4 billion, whose effect is included in “Income tax expense (benefit)—Deferred” in the consolidated statements of income for the fiscal year ended March 31, 2015. Net income attributable to NTT decreased by ¥47.8 billion for the fiscal year ended March 31, 2015. Following the enactment of the Act for the Partial Revision of the Income Tax Act and the Act for the Partial Revision of the Local Tax Act on March 29, 2016, the corporate tax rates have been changed for fiscal years that began on or after April 1, 2016. As a result of this change in the tax rate, net deferred tax asset amounts existing on the enactment date decreased by ¥32.7 billion, whose effect is included in “Income tax expense (benefit)—Deferred” in the consolidated statements of income for the fiscal year ended March 31, 2016. Net income attributable to NTT decreased by ¥23.7 billion for the fiscal year ended March 31, 2016. NTT Group recognizes a valuation allowance on deferred tax assets to reflect the amount of future tax benefits that are not expected to be realized. In determining the appropriate valuation allowance, NTT Group takes into account the level of expected future taxable income and available tax planning strategies. If future taxable income is lower than expected or if expected tax-planning strategies are not available as anticipated, NTT Group may recognize an additional valuation allowance through income tax expense (benefit)—Deferred in the period in which such judgment is made.

As of March 31, 2016 and 2017, NTT Group had deferred tax assets of ¥1,561.8 billion and ¥1,732.3 billion, which included respective valuation allowance of ¥167.1 billion and ¥379.5 billion. The valuation allowance mainly related to deferred tax assets of NTT and certain subsidiaries with operating loss carryforwards for tax purposes that are not expected to be realized. The net change in the total valuation allowance for the fiscal years ended March 31, 2016 and March 31, 2017 were a decrease of ¥98.8 billion and an increase of ¥212.3 billion, respectively. The decrease in the amount of the valuation allowance for the fiscal year ended March 31, 2016 was due primarily to a decrease of ¥43.7 billion for regional tax in NTT West related to the improvement of its forecast of future taxable income and a decrease of ¥32.7 billion in NTT DOCOMO considering the prudent and feasible tax-planning strategies that became available during the year. The increase in the amount of the valuation allowance for the fiscal year ended March 31, 2017 was due primarily to the impact of NTT America, Inc.’s merger with Verio Inc., its subsidiary. For additional details, please see Note 13 to the Consolidated Financial Statements.

Accrued liabilities for point programs

NTT Group offers mobile services subscribers “points” based on the usage of mobile, FLET’S Hikari and other services. Points may be exchanged for benefits, including discounts on handsets. NTT Group records “Accrued liabilities for point programs” relating to the points that customers earn. The aggregate total amount of accrued liabilities for point programs recognized as short-term and long-term liabilities as of March 31, 2016 and 2017 was ¥94.1 billion and ¥114.6 billion, respectively. Point program expenses for the fiscal years ended March 31, 2015, 2016 and 2017 were ¥77.8 billion, ¥60.3 billion and ¥94.7 billion, respectively.

In determining the accrued liabilities for point programs, NTT Group estimates such factors as the point utilization rate, taking into account the forfeitures caused by, among other things, expected future subscription cancellations if NTT Group could estimate such forfeitures. Higher than estimated point utilization rates could result in the need to recognize additional expenses or accrued liabilities in the future.

In determining the accrued liabilities for point programs, NTT Group estimates that as of March 31, 2017, a one-percent increase in the point utilization rate would result in an immaterial amount of additional liability accrual, if all other factors are held constant.

Application of New Accounting Standards Not Yet Adopted

Revenue from Contracts with Customers

On May 28, 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers,” which requires an entity to recognize revenue when the entity transfers control of promised goods or services to customers. Revenue is recognized in an amount that reflects the consideration an entity expects to receive in exchange for those goods or services. An entity also is required to disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective.

The FASB also issued ASU 2016-08 “Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” ASU2016-10 “Identifying Performance Obligations and Licensing,” ASU2016-12 “Narrow-Scope Improvements and Practical Expedients,” ASU 2016-20 “Technical Corrections and Improvements to Topic 606,” and ASU 2017-05 “Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets” in March, April, May and December 2016, and February 2017, respectively, to amend ASU 2014-09 partially.

On August 12, 2015, the FASB issued ASU 2015-14 “Revenue from Contracts with Customers: Deferral of the Effective Date,” and deferred the effective date of ASU 2014-09 by one year. Consequently, the new standard is effective for annual reporting periods beginning after December 15, 2017. The standard is expected to take effect for NTT Group on April 1, 2018. Early adoption of the standard as of April 1, 2017 would also be permitted.

The two permitted transition methods under the new standard are the full retrospective method, or the modified retrospective method. Under the full retrospective method, all periods presented will be updated upon adoption to conform to the new standard and a cumulative adjustment for effects on periods prior to the reporting period will be recorded to retained earnings at the beginning of the initial reporting period. Under the modified retrospective approach, the current reporting period will be updated to conform to the new standard and a cumulative adjustment for effects of applying the new standard to periods prior to the reporting period that includes the date of initial application is recorded to retained earnings as of the date of initial application, and also incremental disclosures related to the amount affected by the application of this new standard are required.

NTT has not decided on a transition method and is currently evaluating the impact of the new standard on NTT’s consolidated financial statements and related disclosures.

The impact on revenue resulting from the application of the new standard will be subject to assessments that are dependent on many variables, including, but not limited to, the terms, the transaction prices including discounts and the mixture of the goods and services of NTT’s contractual arrangements. While NTT is continuing to assess all potential impacts resulting from the application of the new standard, NTT believes that the most significant impacts may include the following items:

- The new standard requires the recognition of incremental costs of obtaining contacts and direct costs of fulfilling contracts with customers as assets. Under the current standard, those costs relating to communication services provided on the Regional communications business, the Long distance and international communications business, and the Mobile communications business are capitalized and amortized up to the upfront fees as the upper limit over the estimated average period of the subscription for each service. After adopting the new standard, all of those costs will be capitalized, and therefore, part of the sales commissions and other charges that have previously been treated as expenses will be recognized as additional assets. For the fiscal year ended March 31, 2017, the majority of the amount of sales commissions incurred for agent resellers was ¥320,800 million which was mainly included in the Mobile communication business.
- The new standard requires that if customers are granted by an entity the option to acquire additional goods or services at a discount by a contract agreed between the customer and the entity, the entity

shall identify this option as a separate performance obligation upon granting such option as a part of the consideration of the transaction being recognized as contract liabilities, and recognize revenue when the additional good or service is transferred at a discount to the customer or when such option expires. Under the current standard, NTT Group records accrued liabilities relating to the points that customers earn. After adopting the new standard, NTT Group will recognize a part of the consideration for transactions of mobile communications and other services as contract liabilities at the time when the points are granted, and recognize revenue when points are used for additional goods or services at a discount. For the fiscal year ended March 31, 2017, the majority of the amount of expenses for point programs under the existing standards was ¥94,291 million, which was included in the Mobile communication business.

NTT Group is in the process of establishing its operating processes and internal controls for the adoption of the new revenue recognition standard.

Recognition and Measurement of Financial Assets and Financial Liabilities

On January 5, 2016, the FASB issued ASU 2016-01 “Recognition and Measurement of Financial Assets and Financial Liabilities,” which makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU 2016-01 requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. ASU 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounted for under the equity method. The new standard also affects the recognition of changes in fair value of financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017. The new standard is expected to take effect for NTT Group on April 1, 2018.

NTT is currently evaluating the effect of adopting the ASU.

Leases

On February 25, 2016, the FASB issued ASU 2016-02 “Leases,” which requires all lessees to recognize right-of-use assets and lease liabilities, principally. The new standard is effective for fiscal years beginning after December 15, 2018. The new standard is expected to take effect for NTT Group on April 1, 2019. Early adoption is permitted.

The adoption of the new accounting standard is expected to result in the recognition of additional right-of-use assets and lease liabilities. NTT is considering the scope and the amounts of assets and liabilities to be recognized.

Simplifying the Test for Goodwill Impairment

On January 26, 2017, the FASB issued ASU 2017-04 “Simplifying the Test for Goodwill Impairment,” which eliminates Step 2 from the goodwill impairment test. Instead, the amendments in this update require that an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019 on a prospective basis. The new standard is expected to take effect for NTT Group on April 1, 2020. Early adoption of the standard for goodwill impairment tests with measurement dates after January 1, 2017 would also be permitted.

NTT is currently evaluating the effect of adopting the ASU.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

On March 10, 2017, the FASB issued ASU2017-07 “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” which requires that employers report the service cost component in the same line item(s) as other employee compensation costs arising from services rendered during

the period, and report the other components of net benefit cost separately from the service cost component and outside a subtotal of operating income. Only the service cost component will be eligible for capitalization. The updated presentation of net benefit cost in an employer's income statement is to be applied retrospectively while the change in capitalized benefit cost is to be applied prospectively. ASU 2017-07 is effective for fiscal years beginning after December 15, 2017. The standard is expected to take effect for NTT Group on April 1, 2018. Early adoption of the standard as of April 1, 2017 would also be permitted.

NTT is currently evaluating the effect of adopting the ASU.

ITEM 6—DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The overall direction of NTT's affairs is the responsibility of its Board. The Board currently consists of 12 members. Members of the Board are elected for a two-year term. Elections are conducted at NTT's ordinary general meeting of shareholders. The most recent election was held on June 24, 2016, during which shareholders approved the election of twelve Members of the Board and one Audit & Supervisory Board Member.

The following is a list of NTT's Members of the Board, Audit & Supervisory Board Members and Presidents of principal subsidiaries as of June 28, 2017:

Members of the Board

Name	Date of Birth	Date First Appointed	Date Current Term Ends	Position/Responsibility	Brief Career Summary and Significant Concurrent Business Activities	Shares Owned ⁽¹⁾
Satoshi Miura	April 3, 1944	June 2012	June 2018	Chairman of the Board	April 1967 : Joined Nippon Telegraph and Telephone Public Corporation	33,740
					June 1996 : Senior Vice President Head of Personnel Member of the Board of the Company	
					July 1996 : Senior Vice President Head of Personnel for Industrial Relations Member of the Board of the Company	
					June 1998 : Executive Vice President Head of Personnel for Industrial Relations Member of the Board of the Company	
					January 1999 : Executive Vice President Deputy Senior Executive Manager of the NTT-East Provisional Headquarters Member of the Board of the Company	
					July 1999 : Senior Executive Vice President Representative Director of Nippon Telegraph and Telephone East Corporation	
					June 2002 : President and Representative Director of Nippon Telegraph and Telephone East Corporation	
					June 2005 : Senior Executive Vice President Head of the Corporate Management Strategy Division Representative Member of the Board of the Company	
					June 2007 : President and Chief Executive Officer Representative Member of the Board of the Company	
					June 2012 : Chairman of the Board of the Company (present post)	
June 2016 : External Director of Hiroshima Bank, Ltd. (present post)						
					<u>Significant Concurrent Business Activities:</u> External Director of Hiroshima Bank, Ltd.	
Hiroo Unoura	January 13, 1949	June 2012	June 2018	President and Chief Executive Officer Representative Member of the Board	April 1973 : Joined Nippon Telegraph and Telephone Public Corporation	29,000
					June 2002 : Senior Vice President Head of Department I Member of the Board of the Company	

Name	Date of Birth	Date First Appointed	Date Current Term Ends	Position/Responsibility	Brief Career Summary and Significant Concurrent Business Activities	Shares Owned ⁽¹⁾
					June 2005 : Senior Vice President Head of Department V Member of the Board of the Company	
					June 2007 : Executive Vice President Head of Corporate Strategy Planning Head of Corporate Business Strategy Member of the Board of the Company	
					June 2008 : Senior Executive Vice President Head of Strategic Business Development Representative Member of the Board of the Company	
					June 2011 : Senior Executive Vice President Representative Member of the Board of the Company	
					June 2012 : President and Chief Executive Officer Representative Member of the Board of the Company (present post)	
Hirokichi Shinohara	March 15, 1954	June 2014	June 2018	Senior Executive Vice President Chief Technology Officer Chief Information Security Officer In charge of technical strategy and international standardization Head of Research and Development Planning Representative Member of the Board	April 1978 : Joined Nippon Telegraph and Telephone Public Corporation June 2009 : Senior Vice President Head of Research and Development Planning Member of the Board of the Company June 2011 : Senior Vice President Head of Research and Development Planning Head of the Information Sharing Laboratory Group Member of the Board of the Company October 2011 : Senior Vice President Head of Research and Development Planning Member of the Board of the Company June 2012 : Executive Vice President Head of Research and Development Planning Member of the Board of the Company June 2014 : Senior Executive Vice President Head of Research and Development Planning Representative Member of the Board of the Company (present post)	15,900
Jun Sawada	July 30, 1955	June 2014	June 2018	Senior Executive Vice President Chief Financial Officer Chief Compliance Officer Chief Information Officer In charge of business strategy and risk management Representative Member of the Board	April 1978 : Joined Nippon Telegraph and Telephone Public Corporation June 2008 : Senior Vice President Executive Manager of Corporate Strategy Planning Department Member of the Board of NTT Communications Corporation June 2011 : Executive Vice President Executive Manager of Corporate Strategy Planning Department Member of the Board of NTT Communications Corporation	12,000

Name	Date of Birth	Date First Appointed	Date Current Term Ends	Position/Responsibility	Brief Career Summary and Significant Concurrent Business Activities	Shares Owned⁽¹⁾
					June 2012 : Senior Executive Vice President Executive Manager of Corporate Strategy Planning Department Representative Member of the Board of NTT Communications Corporation June 2013 : Senior Executive Vice President Representative Member of the Board of NTT Communications Corporation June 2014 : Senior Executive Vice President Representative Member of the Board of the Company (present post) June 2016 : Representative Director and President, Chief Executive Officer of NTT Security Corporation (present post) <u>Significant Concurrent Business Activities:</u> Representative Director and President, Chief Executive Officer of NTT Security Corporation	
Mitsuyoshi Kobayashi	November 3, 1957	June 2014	June 2018	Executive Vice President Head of Technology Planning Member of the Board	April 1982 : Joined Nippon Telegraph and Telephone Public Corporation June 2006 : General Manager of Okayama Branch of Nippon Telegraph and Telephone West Corporation July 2008 : General Manager of the Service Management Department of Nippon Telegraph and Telephone West Corporation June 2010 : Senior Vice President General Manager of the Service Management Department Member of the Board of Nippon Telegraph and Telephone West Corporation June 2012 : Senior Vice President Head of Technology Planning Head of Strategic Business Development Member of the Board of the Company June 2012 : Senior Vice President Member of the Board of NTT COMWARE CORPORATION (present post) June 2014 : Executive Vice President Head of Technology Planning Member of the Board of the Company (present post) <u>Significant Concurrent Business Activities:</u> Member of the Board of NTT COMWARE CORPORATION	8,600
Akira Shimada	December 18, 1957	June 2015	June 2018	Executive Vice President Head of General Affairs Member of the Board	April 1981 : Joined Nippon Telegraph and Telephone Public Corporation July 2007 : General Manager of the Accounts and Finance Department of Nippon Telegraph and Telephone West Corporation July 2009 : General Manager of the General Affairs and Personnel Department of Nippon Telegraph and Telephone East Corporation	8,104

Name	Date of Birth	Date First Appointed	Date Current Term Ends	Position/Responsibility	Brief Career Summary and Significant Concurrent Business Activities	Shares Owned ⁽¹⁾
					June 2011 : Senior Vice President General Manager of the General Affairs and Personnel Department Member of the Board of Nippon Telegraph and Telephone East Corporation June 2012 : Senior Vice President Head of the General Affairs Member of the Board of the Company June 2012 : Member of the Board of Nippon Telegraph and Telephone West Corporation (present post) June 2015 : Executive Vice President Head of General Affairs Member of the Board of the Company (present post)	
					Significant Concurrent Business Activities: Member of the Board of Nippon Telegraph and Telephone West Corporation	
Tsunehisa Okuno	October 12, 1960	June 2012	June 2018	Senior Vice President Head of Global Business Member of the Board	April 1983 : Joined Nippon Telegraph and Telephone Public Corporation July 2007 : Vice President of the Corporate Business Strategy of the Company June 2008 : Head of the Global Business Strategy Office of Strategic Business Development of the Company January 2011 : Senior Vice President of Dimension Data Holdings plc (present post) June 2011 : Head of Global Business of the Company June 2012 : Senior Vice President Head of Global Business Member of the Board of the Company (present post) June 2016 : Director of NTT Security Corporation (present post)	4,900
					Significant Concurrent Business Activities: Senior Vice President of Dimension Data Holdings plc Director of NTT Security Corporation	
Hiroki Kuriyama	May 27, 1961	June 2014	June 2018	Senior Vice President Head of Strategic Business Development In charge of 2020 Project Member of the Board	April 1985 : Joined the Company February 2003 : Vice President of Department I of the Company May 2005 : Vice President of Corporate Business Strategy of the Company June 2008 : Vice President of Corporate Strategy Planning of the Company June 2012 : Vice President of President's Office of General Affairs of the Company June 2014 : Senior Vice President Head of Strategic Business Development Member of the Board of the Company (present post)	3,670
Takashi Hiroi	February 13, 1963	June 2015	June 2018	Senior Vice President Head of Finance and Accounting Member of the Board	April 1986 : Joined the Company May 2005 : Vice President of Corporate Business Strategy of the Company June 2008 : Vice President of Strategic Business Development of the Company	3,300

Name	Date of Birth	Date First Appointed	Date Current Term Ends	Position/Responsibility	Brief Career Summary and Significant Concurrent Business Activities	Shares Owned⁽¹⁾
					July 2009 : Vice President of Corporate Strategy Planning of the Company	
					June 2014 : Head of Finance and Accounting of the Company	
					June 2015 : Senior Vice President Head of Finance and Accounting Member of the Board of the Company (present post)	
Eiichi Sakamoto	September 3, 1963	June 2016	June 2018	Senior Vice President Head of Corporate Strategy Planning Member of the Board	April 1986 : Joined the Company	2,800
					October 2005 : Head of the Business Management Group of the Corporate Strategy Planning Department of Nippon Telegraph and Telephone East Corporation	
					July 2009 : Head of the Planning Group of the Corporate Strategy Planning Department of Nippon Telegraph and Telephone East Corporation	
					July 2011 : Head of the Public Relations of the Corporate Strategy Planning of the Company	
					June 2015 : Senior Vice President, Managing Director of Corporate Marketing Strategy Department of NTT DOCOMO, INC.	
					June 2016 : Senior Vice President Head of the Corporate Strategy Planning of the Company Member of the Board of the Company (present post) Member of the Board of Nippon Telegraph and Telephone East Corporation (present post)	
					<u>Significant Concurrent Business Activities:</u> Member of the Board of Nippon Telegraph and Telephone East Corporation	
Katsuhiko Shirai	September 24, 1939	June 2012	June 2018	Outside Member of the Board	April 1965 : Assistant of the First Faculty of Science and Engineering of Waseda University	3,400
					April 1968 : Full-time lecturer of the Faculty of Science and Engineering of Waseda University	
					April 1970 : Assistant Professor of the Faculty of Science and Engineering of Waseda University	
					April 1975 : Professor of the Faculty of Science and Engineering of Waseda University	
					November 1994 : Director of Academic Affairs and Director of the International Exchange Center of Waseda University	
					November 1998 : Executive Director of Waseda University	
					November 2002 : President of Waseda University	
					November 2010 : Educational Advisor of Waseda University	
					April 2011 : Chairperson of the Foundation for the Open University of Japan	

Name	Date of Birth	Date First Appointed	Date Current Term Ends	Position/Responsibility	Brief Career Summary and Significant Concurrent Business Activities	Shares Owned ⁽¹⁾
					June 2012 : Member of the Board of the Company (present post)	
					June 2012 : Director of Japan Display, Inc. (present post)	
					November 2016 : Honorary Advisor of Waseda University (present post)	
					Significant Concurrent Business Activities: Director (Part-Time) of Japan Display, Inc.	
Sadayuki Sakakibara	March 22, 1943	June 2012	June 2018	Outside Member of the Board	April 1967 : Joined Toyo Rayon Co., Ltd. (currently registered as Toray Industries, Inc.)	8,100
					June 1994 : Director of the Corporate Planning Department of Toray Industries, Inc.	
					June 1996 : Director of the Board of Toray Industries, Inc.	
					June 1998 : Managing Director of Toray Industries, Inc.	
					June 1999 : Senior Managing Director of Toray Industries, Inc.	
					June 2001 : Executive Vice President of Toray Industries, Inc.	
					June 2002 : President of Toray Industries, Inc.	
					June 2010 : Chairman and Representative Member of the Board of Toray Industries, Inc.	
					June 2012 : Member of the Board of the Company (present post)	
					June 2013 : Director of Hitachi, Ltd. (present post)	
					June 2014 : Chairman of the Japan Business Federation (Keidanren) (present post)	
					June 2014 : Chairman of the Board of Directors, Toray Industries, Inc.	
					June 2015 : Chief Senior Adviser and Chief Senior Counselor of Toray Industries, Inc. (present post)	
					Significant Concurrent Business Activities: Chief Senior Adviser, Chief Senior Counselor of Toray Industries, Inc. Director of Hitachi, Ltd. Chairman of the Japan Business Federation (Keidanren)	

Audit & Supervisory Board Members

Akiko Ide	February 28, 1955	June 2014	June 2019	Audit & Supervisory Board Member	April 1977 : Joined Nippon Telegraph and Telephone Public Corporation	7,500
					June 2003 : General Manager of Customer Services of NTT DOCOMO, INC.	
					September 2004 : Concurrently General Manager of Customer Services and General Manager of Information Security of NTT DOCOMO, INC.	
					June 2005 : General Manager of Customer Services of NTT DOCOMO, INC.	
					April 2006 : General Manager of Corporate Citizenship Department of NTT DOCOMO, INC.	
					June 2006 : Executive Director and General Manager of Corporate Citizenship Department of NTT DOCOMO, INC.	
					July 2008 : Executive Director and General Manager for Chugoku regional office of NTT DOCOMO, INC.	

Name	Date of Birth	Date First Appointed	Date Current Term Ends	Position/Responsibility	Brief Career Summary and Significant Concurrent Business Activities	Shares Owned⁽¹⁾
					June 2012 : Executive Director and Director of Information Security of NTT DOCOMO, INC.	
					May 2013 : President and Chief Executive Officer of Radishbo-ya Co., Ltd.	
					June 2013 : Executive Director and Senior Manager in Charge of Commerce Business Promotion of NTT DOCOMO, INC.	
					June 2014 : Full Time Audit & Supervisory Board Member of NTT (present post)	
Takao Maezawa	October 24, 1955	June 2016	June 2019	Audit & Supervisory Board Member	April 1978 : Joined Nippon Telegraph and Telephone Public Corporation June 2006 : Executive Manager of Human Resources Management Department, General Manager of Training Institute Executive Manager of the General Affairs of NTT Communications Corporation June 2008 : Senior Vice President Deputy General Manager of the Enterprise Business Division Member of the Board of NTT Communications Corporation June 2011 : Executive Vice President Deputy General Manager of the Enterprise Business Division Member of the Board of NTT Communications Corporation August 2011 : Executive Vice President Head of Second Sales Division Member of the Board of NTT Communications Corporation June 2012 : President and CEO of NTT PC Communications Incorporated June 2016 : Full Time Audit & Supervisory Board Member of NTT (present post)	9,304
Michiko Tomonaga ⁽²⁾	July 26, 1947	June 2011	June 2019	Outside Audit & Supervisory Board Member	March 1975 : Registered as a certified public accountant (certification up-to-date) July 2007 : Vice President of the Japanese Institute of Certified Public Accountants July 2008 : Senior Partner at Ernst & Young Japan June 2010 : Outside Corporate Auditor of Keikyu Corporation June 2011 : Outside Audit & Supervisory Board Member of NTT (present post) February 2012 : Audit & Supervisory Board Member of the Corporation for Revitalizing Earthquake affected Business June 2014 : Outside Director of Japan Exchange Group, Inc. June 2016 : Outside Director of Keikyu Corporation (present post)	2,500
					<u>Significant Concurrent Business Activities:</u> Certified Public Accountant Outside Director of Keikyu Corporation	

Name	Date of Birth	Date First Appointed	Date Current Term Ends	Position/Responsibility	Brief Career Summary and Significant Concurrent Business Activities	Shares Owned⁽¹⁾						
Seiichi Ochiai ⁽²⁾	April 10, 1944	June 2012	June 2019	Outside Audit & Supervisory Board Member	April 1974	: Instructor in the Faculty of Law of the University of Tokyo	5,104					
					April 1977	: Associate Professor in the Faculty of Law of Seikei University						
					April 1981	: Professor in the Faculty of Law of Seikei University						
					April 1990	: Professor at the University of Tokyo Graduate Schools for Law and Politics and the Faculty of Law of the University of Tokyo						
					April 2007	: Professor at Chuo Law School						
					April 2007	: Registered as attorney-at-law (Dai-Ichi Tokyo Bar Association) (registration up-to-date)						
					June 2007	: Emeritus Professor at the University of Tokyo (present post)						
					June 2008	: Outside Director of EBARA CORPORATION						
					June 2012	: Outside Audit & Supervisory Board Member of NTT (present post)						
					July 2012	: Outside Director of Meiji Yasuda Life Insurance Company (present post)						
					June 2013	: Outside Auditor of Ube Industries, Ltd. (present post)						
					<u>Significant Concurrent Business Activities:</u>							
					Lawyer							
					Outside Director of Meiji Yasuda Life Insurance Company;							
Outside Auditor of Ube Industries, Ltd.												
Takashi Iida ⁽²⁾	September 5, 1946	June 2014	June 2019	Outside Audit & Supervisory Board Member	April 1974	: Registered as attorney-at-law (Daini Tokyo Bar Association) (registration up-to-date)	2,700					
						Joined Mori Sogo Law Offices (currently Mori, Hamada and Matsumoto)						
					April 1991	: Deputy Chairman of the Daini Tokyo Bar Association						
					April 1997	: Executive Governor of the Japan Federation of Bar Associations						
					April 2006	: Chairman of the Daini Tokyo Bar Association						
					April 2006	: Vice President of the Japan Federation of Bar Associations						
					January 2012	: Established Kowa Law Office (present post)						
					June 2012	: Corporate Auditor (Part-Time) for Shimadzu Corporation (present post)						
					June 2013	: Corporate Auditor of JAFCO Co., Ltd						
					June 2013	: Outside Director of Alps Electric Co., Ltd. (present post)						
					June 2014	: Outside Audit & Supervisory Board Member of NTT (present post)						
					<u>Significant Concurrent Business Activities:</u>							
					Lawyer							
					Corporate Auditor (Part-Time) of Shimadzu Corporation							
Outside Director of Alps Electric Co., Ltd.												

Presidents of Principal Subsidiaries

Name	Date of Birth	Date First Appointed	Date Current Term Ends	Position/Responsibility	Brief Career Summary and Significant Concurrent Business Activities	Shares Owned ⁽¹⁾	
Masayuki Yamamura	March 30, 1953	June 2012	June 2018	President, NTT East	April 1978	: Joined Nippon Telegraph and Telephone Public Corporation	(3)
					May 2005	: Vice President of NTT's Corporate Business Strategy Division	
					June 2005	: Senior Vice President and General Manager NTT East's Tokyo Branch, Deputy Senior Executive Manager of NTT East's Business User Sales Promotion Headquarters (resigned on June 2006)	
					June 2008	: Executive Vice President and General Manager of NTT East's Tokyo Branch	
					June 2009	: Executive Vice President Senior Executive Manager of NTT East's Network Business Headquarters General Manager of NTT East's Research and Development Center, Network Business Headquarters (resigned in May 2011)	
					June 2012	: Executive Manager of NTT East's Planning Department, Network Business Headquarters (resigned in July 2009) General Manager of NTT East's Research and Development Center, Network Business Headquarters (resigned in July 2009)	
Kazutoshi Murao	October 21, 1952	June 2012	June 2018	President, NTT West	April 1976	: Joined Nippon Telegraph and Telephone Public Corporation	(3)
					June 2005	: Member of the Board and Executive Manager of NTT West's Corporate Strategy Planning Department	
					July 2006	: Deputy Senior Executive Manager of NTT West's Kansai Regional Headquarters	
					June 2007	: NTT West's Executive Manager of Accounts and Finance Department (resigned in July 2007)	
					June 2008	: Executive Vice President and Executive Manager of NTT West's Corporate Strategy Planning Department	
					June 2009	: Senior Executive Vice President Senior Executive Manager of NTT West's Marketing Headquarters Executive Manager of the Corporate Strategy Planning Department (resigned in October 2009)	
					June 2010	: Executive Manager of NTT West's Marketing Department, Marketing Headquarters (resigned in September 2010)	
					June 2012	: President of NTT West (present post)	

Name	Date of Birth	Date First Appointed	Date Current Term Ends	Position/Responsibility	Brief Career Summary and Significant Concurrent Business Activities	Shares Owned⁽¹⁾	
Tetsuya Shoji	February 28, 1954	June 2015	June 2018	President, NTT Communications	April 1977	: Joined Nippon Telegraph and Telephone Public Corporation	(3)
					July 2005	: Executive Manager of NTT West's Personnel Department	
					June 2006	: Member of the Board of NTT West	
					June 2009	: Member of the Board and Senior Vice President of NTT's General Affairs Department	
						Vice President of the Internal Control Office of NTT's General Affairs Department	
					June 2012	: Senior Executive Vice President of NTT Communications	
					June 2015	: President of NTT Communications (present post)	
Kazuhiro Yoshizawa	June 21, 1955	June 2016	June 2018	President, NTT DOCOMO	April 1979	: Joined Nippon Telegraph and Telephone Public Corporation	(3)
					June 2007	: Senior Vice President General Manager of Corporate Sales and Marketing Department II of NTT DOCOMO	
					June 2011	: Senior Vice President, General Manager of Human Resources Management Department Member of the Board of Directors of NTT DOCOMO	
					June 2012	: Executive Vice President, General Manager of Corporate Strategy and Planning Department Responsible for Mobile Society Research Institute, Member of the Board of Directors of NTT DOCOMO	
					July 2013	: Executive Vice President, General Manager of Corporate Strategy and Planning Department General Manager of Structural Reform Office, Responsible for Mobile Society Research Institute Member of the Board of Directors of NTT DOCOMO	
					June 2014	: Senior Executive Vice President Responsible for Technology, Devices and Information Strategy, Member of the Board of Directors of NTT DOCOMO	
					June 2016	: President of NTT DOCOMO, Executive General Manager of Sales and Marketing Division of NTT DOCOMO	
					June 2016	: President of NTT DOCOMO (present post)	
Toshio Iwamoto	January 5, 1953	June 2012	June 2019	President, NTT DATA	April 1976	: Joined Nippon Telegraph and Telephone Public Corporation	(3)
					June 2004	: Director and Head of Payment Solutions Sector of NTT DATA Deputy Head of Financial Business Sector of NTT DATA	

Name	Date of Birth	Date First Appointed	Date Current Term Ends	Position/Responsibility	Brief Career Summary and Significant Concurrent Business Activities	Shares Owned⁽¹⁾
					June 2005 : Senior Vice President Head of Financial Business Sector of NTT DATA	
					June 2007 : Director and Executive Vice President Head of Financial Business Sector of NTT DATA Head of the Fourth Public Sector	
					February 2008 : Director and Executive Vice President Head of Financial Business Sector of NTT DATA	
					July 2008 : Director and Executive Vice President of NTT DATA	
					June 2009 : Representative Director and Senior Executive Vice President of NTT DATA	
					July 2009 : Representative Director and Senior Executive Vice President of NTT DATA, Company President of the Public & Financial IT Services Company	
					June 2011 : Representative Director and Senior Executive Vice President of NTT DATA	
					June 2012 : President of NTT DATA (present post)	

(1) NTT Shares owned as of June 28, 2017.

(2) Outside Audit & Supervisory Board Member.

(3) The number of Shares owned represents less than one percent of all outstanding Shares.

None of NTT's Members of the Board, Audit & Supervisory Board Members or presidents of principal subsidiaries is party to a service contract with NTT or any of its subsidiaries that provides for benefits upon termination of employment.

Compensation

Policies

In order to improve objectivity and transparency regarding matters concerning the compensation of Members of the Board, NTT established the Appointment and Compensation Council, which comprises four Members of the Board, including two Outside Independent Members of the Board (independent directors within the meaning of the TSE Code, as defined under “—Board Practices—Board of Directors” below), and such matters are decided by the Board after deliberation by this council.

Compensation of Members of the Board (excluding Outside Members of the Board) consists of a base salary and a bonus. The base salary is paid monthly on the basis of the scope of each member's roles and responsibilities. The bonus is paid on the basis of NTT's business results for the applicable fiscal year. In addition, Members of the Board make minimum monthly contributions for the purchase of NTT Shares through the Directors' Shareholding Association, to encourage a medium- and long-term perspective. Members of the Board hold the Shares they purchase for the duration of their terms of office.

In order to maintain a high level of independence, compensation of Outside Members of the Board consists of a base salary only (payable monthly), and is not linked to NTT's business results.

Compensation of Audit & Supervisory Board Members is determined by discussion among the Audit & Supervisory Board Members and consists of a base salary only (payable monthly) for the same reasons as those cited above with respect to Outside Members of the Board.

Total Compensation of Members of the Board and Audit & Supervisory Board Members during the Fiscal Year Ended March 31, 2017

<u>Position</u>	<u>Number of Payees</u>	<u>Base Salary</u>	<u>Bonus</u>	<u>Total</u>
		(millions of yen)		
Members of the Board (excluding Outside Members of the Board)	11	¥412	¥ 98	¥510
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	<u>3</u>	<u>¥ 74</u>	<u>—</u>	<u>¥ 74</u>
Total	<u>14</u>	<u>¥487</u>	<u>¥ 98</u>	<u>¥585</u>

Notes:

1. The numbers above include one Member of the Board and one Audit & Supervisory Board Member whose resignations became effective at the conclusion of the 31st Ordinary General Meeting of Shareholders held on June 24, 2016.
2. Upper limits on total annual compensation of Members of the Board and Audit & Supervisory Board Members were set at an aggregate of ¥750 million for Members of the Board and ¥200 million for Audit & Supervisory Board Members at the 21st Ordinary General Meeting of Shareholders held on June 28, 2006.
3. In addition to the above, NTT Group paid an aggregate of ¥13 million as executive bonuses to five of its Members of the Board who also hold executive management positions.

Total Compensation of Outside Members of the Board and Outside Audit & Supervisory Board Members during the Fiscal Year Ended March 31, 2017

	<u>Number of Payees</u>	<u>Base Salary</u>
		(millions of yen)
Total compensation of Outside Members of the Board and Outside Audit & Supervisory Board Members	5	¥71

Board Practices

Board of Directors

NTT's Board is currently composed of twelve directors, referred to as "Members of the Board." While not mandated by the Companies Act, two of NTT's directors are outside directors (i.e., directors who meet certain requirements under the Companies Act, including, among other things, the following: (i) persons who are not currently executive directors, executive officers or employees, including managers (collectively, "Executive Directors etc.") of NTT or any of its subsidiaries, and who have not been Executive Directors etc. of NTT or any of its subsidiaries within 10 years prior to assuming the position of director; (ii) persons who have been directors, accounting advisors or corporate auditors (excluding Executive Directors etc.) of NTT or any of its subsidiaries within 10 years prior to newly assuming the position of director but who have not been Executive Directors etc. thereof within 10 years prior to assuming such previous position as director, accounting advisor or corporate auditor of NTT or any of its subsidiaries (excluding Executive Directors etc.); and (iii) persons who are not currently spouses or relatives within two degrees of a director, executive officer or important employee, including a manager, of NTT). The presence of outside directors serves to strengthen the Board's ability to appropriately monitor business operations, and NTT's outside directors actively contribute to discussions at Board meetings. If NTT has no outside directors at the end of any fiscal year, it will be required to present an explanation at its ordinary general meeting of shareholders for the relevant fiscal year as to why the appointment of outside directors is inappropriate. In addition, TSE rules require that at least one of NTT's outside directors or outside corporate auditors (as described below) meet certain additional independence criteria established by the TSE. Further, TSE rules also require NTT to endeavor to have at least one director who meets such independence criteria. Additionally, the TSE has adopted the Corporate Governance Code, which became effective as of June 1, 2015 (apart from TSE rules, the "TSE Code"). With respect to the TSE Code, the TSE rules adopt a "comply-or-explain" approach, requiring TSE-listed companies to either comply with the principles of the TSE

Code or otherwise provide public disclosure explaining the reason for not complying. According to the TSE Code, TSE-listed companies should have at least two outside independent directors within the meaning of the TSE Code.

NTT's Articles of Incorporation provide that the Board shall have no more than fifteen members. The Board nominates candidates for Member of the Board, who are elected by resolution adopted by a majority vote of shareholders present at a general meeting of shareholders attended by shareholders entitled to exercise voting rights that hold Shares representing in the aggregate one-third or more of the voting rights of all shareholders. Under NTT's Articles of Incorporation, the term of office of a Member of the Board expires at the conclusion of the general meeting of shareholders relating to the last fiscal year ending within two years from such Member of the Board's assumption of office. Members of the Board may be reappointed upon expiration of their term of office. By resolution, the Board may designate, from among its members, one President and one or more Representative Members of the Board, who have the authority to represent the company generally in the conduct of its affairs. NTT's Board may appoint one Chairman and one or more Senior Executive Vice Presidents and Executive Vice Presidents. In addition, the Companies Act provides that a resolution adopted by a majority vote of shareholders present is necessary to remove directors from office unless a higher threshold is provided under the Articles of Incorporation. Under NTT's Articles of Incorporation, a resolution adopted by a majority vote of shareholders present at a meeting of shareholders is required for this purpose.

The Board is responsible for decisions regarding important management issues and other matters, and for supervising the directors' execution of their duties. As a general rule, the Board meets once a month. Under the Companies Act, directors are prohibited from engaging in any transaction in competition with any of the company's businesses for themselves or on behalf of any third party, and from engaging in certain other transactions involving a conflict with the company's interests, unless the transaction is approved by a board resolution. No director may vote on a proposal in which that director is deemed to be materially interested. In addition, the Companies Act requires a resolution of the board to decide on material business matters including, but not limited to, acquisition or disposal of material assets, substantial borrowings, issuance of bonds and establishment of internal control systems for the business group.

The Board's resolutions are passed by a majority vote of Members of the Board present at a meeting attended by a majority of Members of the Board entitled to participate in the voting.

With regard to matters concerning the appointment and compensation of directors, in order to improve objectivity and transparency, NTT has established the Appointment and Compensation Council, a group of four Members of the Board, including two Outside Independent Members of the Board (independent directors within the meaning of the TSE Code), to serve as a preliminary review institution for the Board. The Appointment and Compensation Council deliberates on matters concerning the appointment and compensation of directors before the Board meetings in which final determinations of such matters are made.

Pursuant to the Companies Act and NTT's Articles of Incorporation, NTT, by resolution of the Board, may exempt its directors (including former directors) and corporate auditors (including former corporate auditors) from liability to NTT for actions taken in good faith and without gross negligence in connection with the performance of their duties, subject to limits imposed by the Companies Act. In addition, NTT has entered into an agreement with each of its outside directors and corporate auditors limiting their maximum liability to NTT for actions taken in good faith and without gross negligence in connection with their performance of their duties, subject to limits imposed by the Companies Act.

Audit & Supervisory Board

NTT maintains a board of corporate auditors (the "Audit & Supervisory Board"), which is composed of five corporate auditors, referred to as "Audit & Supervisory Board Members," of whom three are outside corporate auditors. Each corporate auditor attends board of directors' and other important meetings. Through this and other means, the corporate auditors monitor the execution of the duties of NTT's directors and the condition of NTT's

business operations and assets, as appropriate. The corporate auditors are assisted by their staff maintained for such purposes. NTT's board of corporate auditors works in collaboration with corporate auditors from NTT Group companies in carrying out its audit functions. Under the Companies Act, at least half of the corporate auditors must be outside corporate auditors (i.e., corporate auditors who meet certain requirements under the Companies Act, including, among other things, the following: (i) persons who have not been directors, accounting advisors, executive officers or employees, including managers, of NTT or any of its subsidiaries within 10 years prior to assuming the position of corporate auditor; (ii) persons who have been corporate auditors of NTT or any of its subsidiaries within 10 years prior to newly assuming the position of corporate auditor but who have not been directors, accounting advisors, executive officers or employees, including managers, within 10 years prior to assuming the such previous position as corporate auditor; and (iii) persons who are not currently spouses or relatives within two degrees of a director or important employee, including a manager, of NTT), and no corporate auditor may concurrently serve as a director, general manager or other employee of the relevant company or any of its subsidiaries or as an accounting advisor or officer of any of such company's subsidiaries. As indicated in "—Board of Directors" above, at least one of NTT's outside directors or outside corporate auditors is required to meet certain additional independence criteria established by the TSE. In addition, according to the TSE Code, at least one person who has appropriate expertise on finance and accounting should be appointed as a corporate auditor.

NTT's Articles of Incorporation provide that there shall be no more than five Audit & Supervisory Board Members on NTT's Audit & Supervisory Board. NTT's Audit & Supervisory Board Members and their respective terms of office are identified in "Directors and Senior Management" above. As a general rule, NTT's Audit & Supervisory Board Members are nominated by the Board with the consent of the Audit & Supervisory Board and are elected by resolution adopted by a majority vote of shareholders present at a general meeting of shareholders attended by shareholders entitled to exercise voting rights holding Shares representing in the aggregate one-third or more of the voting rights of all shareholders. Under NTT's Articles of Incorporation, the Audit & Supervisory Board appoints by resolution one or more members who serve on a full-time basis. In accordance with the Companies Act and NTT's Articles of Incorporation, the term of office of an Audit & Supervisory Board Member expires at the conclusion of the general meeting of shareholders relating to the last fiscal year ending within four years from such Audit & Supervisory Board Member's assumption of office. Audit & Supervisory Board Members may be reappointed upon expiration of their term of office. Audit & Supervisory Board Members may be removed from office by resolution adopted by two-thirds or more of the votes of shareholders present at a general meeting of shareholders attended by shareholders entitled to exercise voting rights holding Shares representing in the aggregate one-third or more of the voting rights of all shareholders. Audit & Supervisory Board Members may state their opinions at a general meeting of shareholders in relation to the removal of an Audit & Supervisory Board Member.

Under the Companies Act, corporate auditors are obligated to audit the execution by the directors of their duties and carry out an accounting audit. Corporate auditors must also examine the agenda and related documents to be submitted by the board of directors to a general meeting of shareholders and report the result of their examination at the general meeting of shareholders in respect of any violations of relevant laws or their company's articles of incorporation or other serious improprieties. Corporate auditors are required to attend and, if necessary, state their opinions at meetings of the board of directors, and, if the corporate auditors become aware of any violations or potential violations by the directors of relevant laws or their company's articles of incorporation that could result in significant harm to the company, the corporate auditors have the right to demand that the directors discontinue the violation.

Further, under the Companies Act, certain "large companies" (such as NTT) are required to maintain a board of corporate auditors comprised of all corporate auditors and, in addition to the audit by the corporate auditors, are required to undergo an accounting audit by an independent auditor nominated by the board of corporate auditors and appointed at a general meeting of shareholders. The board of corporate auditors has a statutory duty to prepare a report based on the individual corporate auditors' reports setting forth, among other things, matters regarding the independent auditor's audit report, and the contents of such report are notified to a

designated director and the independent auditor. The contents of individual corporate auditor reports may be noted in the board of corporate auditors' report if such contents differ from the board of corporate auditors' report. Pursuant to the Companies Act, the board of corporate auditors may, by resolution of the board of corporate auditors, establish audit principles, the procedures for the board of corporate auditors' examination of its company's business and operations and the condition of its assets, and other matters relating to the execution by the corporate auditors of their duties.

Employees

NTT and its consolidated subsidiaries had approximately 274,850 employees as of March 31, 2017. Of these employees, approximately 164,000 were employed within Japan and approximately 110,850 were employed outside of Japan as of March 31, 2017. Almost all of NTT Group's employees in Japan, excluding supervisory staff, are members of the All NTT Workers Union of Japan (*NTT Rodo Kumiai*, or the "Union"), which is a member of the Japanese Trade Union Confederation (*Nippon Rodo Kumiai So Rengokai*), and labor-management relations between NTT Group and the Union are stable. NTT Group has experienced no strikes by the Union over the past ten years.

	Employees as of Fiscal Years Ended March 31,					
	2015		2016		2017	
Regional communications business	71,222	[66,471]	66,214	[64,745]	68,243	[58,419]
Long distance communications and international business	42,234	[9,669]	43,758	[10,185]	43,842	[8,976]
Mobile communications business	25,680	[11,450]	26,129	[11,511]	26,734	[10,447]
Data communications business	76,642	[3,631]	80,526	[3,188]	111,657	[2,911]
Other business	25,815	[10,427]	24,821	[10,226]	24,368	[9,993]
Total	<u>241,593</u>	<u>[101,648]</u>	<u>241,448</u>	<u>[99,855]</u>	<u>274,844</u>	<u>[90,746]</u>

Note: The number of full-time employees as of March 31 of each of the years indicated is shown without brackets. The average annual number of temporary employees for the fiscal years indicated is shown in brackets.

Share Ownership

As of March 31, 2017, the members of the Board of NTT owned a total of 131,614 Shares (less than 0.1% of outstanding Shares).

The NTT Board Members Shareholding Association is an association for the directors and corporate auditors of NTT, NTT East, NTT West, NTT Communications, NTT COMWARE, NTT FACILITIES and other NTT Group companies. Through this association, directors and corporate auditors of the respective NTT Group companies periodically contribute a fixed amount of money for the purchase of NTT stock. NTT DOCOMO and NTT DATA also have similar directors' shareholding associations for the respective purchases of NTT DOCOMO and NTT DATA stock.

The NTT Employee Shareholding Association is an association for employees of NTT, NTT East, NTT West and NTT Communications and other NTT Group companies. Through this association, employees of the respective NTT Group companies periodically contribute a fixed amount of money for the purchase of NTT stock. Their employers contribute matching funds equivalent to 8% of the amount contributed. NTT DOCOMO and NTT DATA also have similar employee shareholding associations for the respective purchases of NTT DOCOMO and NTT DATA stock.

In March 2014, Dimension Data, one of NTT Group's main subsidiaries in the long distance and international communications business segment, implemented a performance-based equity compensation program using NTT shares or ADRs. Pursuant to this long-term incentive plan, Dimension Data will distribute

NTT shares or ADRs to executives and key talent of Dimension Data group companies worldwide based on Dimension Data’s business performance. The purchase of shares for this program will be conducted through a trust that is independent from NTT and Dimension Data, under instructions of the trust executor.

ITEM 7—MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

The Government, acting through the Minister, regulates the activities of NTT and certain of its subsidiaries, and the Minister’s approval is required for the issuance of new Shares, subject to consultation with the Minister of Finance. See “Item 4—Information on the Company—Regulations.” NTT Group transacts business with various departments and agencies of the Government as separate customers on an arm’s-length basis. The Government, in its capacity as a shareholder of NTT, votes at NTT shareholder meetings and, by virtue of its position as the largest shareholder, theoretically has the power to exert considerable influence over most decisions taken at such meetings, although the Government has never used this power to direct the management of NTT.

As of March 31, 2017, the Government owned 679,123,568 Shares, or 32.39% of the issued Shares (33.70% of outstanding Shares). See Note 1 to the Consolidated Financial Statements. For details of the requirements for Government ownership of NTT Shares under the NTT Act, see “Item 4—Information on the Company—Matters Relating to NTT’s Shares.” To NTT’s knowledge, there were no significant changes in the Government’s percentage ownership during the past three fiscal years.

Title of Class	As of March 31, 2017		
	Identity of Person or Group	Amount of Shares Owned	Percent of Class
Common stock	Government of Japan (Minister of Finance)	679,123,568	32.39% ⁽¹⁾
Common stock	Members of the Board (12 persons)	131,614	— ⁽²⁾

(1) 33.70% of outstanding Shares.
(2) Less than 0.1% of outstanding Shares.

As of March 31, 2017, 27,079,865 ADSs (equivalent to 27,079,865 Shares, or 1.3% of the total number of Shares, excluding treasury stock owned by NTT, outstanding on that date) were outstanding and were held by 161 record holders of ADSs (including 152 United States record holders, who held 27,078,434 ADSs).

As far as NTT is aware, there are no arrangements the operation of which may, at a subsequent date, result in a change in control of NTT.

Related Party Transactions

Details of transactions between NTT Group and other affiliated companies

NTT Group has entered into various types of transactions with other affiliated companies, the most significant of which are purchases of terminal equipment and materials as well as the receiving and commissioning of certain services.

Transactions with affiliated companies and the related balances at the end of the periods ended March 31, 2015, 2016 and 2017 were as follows:

	Year ended March 31,		
	2015	2016	2017
	(millions of yen)		
Sales	¥ 45,703	¥ 53,590	¥ 69,134
Purchases	¥137,483	¥140,838	¥136,200
Receivables	¥ 32,859	¥ 34,247	¥ 31,653
Payables	¥112,309	¥119,562	¥149,862

Dividends from affiliated companies accounted for by the equity method for the fiscal years ended March 31, 2015, 2016 and 2017 were ¥25,881 million, ¥20,462 million and ¥16,068 million, respectively.

Details of transactions between NTT Group companies and other related parties

In the fiscal year ended March 31, 2017, NTT DATA entered into various related party transactions, the terms of which were substantially similar to those of transactions that NTT DATA entered into with non-related parties. NTT does not consider the nature and value of the related party transactions that NTT DATA entered into during the fiscal year ended March 31, 2017 to be material.

ITEM 8—FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

See “Item 18—Financial Statements” and pages F-1 through F-81.

Legal Proceedings

In the normal course of its business operations, NTT Group is subject to legal proceedings, lawsuits and other claims, including claims relating to contracts, labor relations and intellectual property. However, based upon the information currently available to both NTT Group and its legal counsel, management believes that damages from such legal proceedings, lawsuits and claims, if any, would not have a material effect on NTT’s Consolidated Financial Statements.

Dividend Policy

In addition to increasing corporate value over the medium- and long-term, NTT has identified the return of profits to shareholders as an important management goal. In determining the level of dividends, NTT, while giving consideration to stability and sustainability, takes into account a full range of factors, including business performance, financial condition and dividend payout ratio.

NTT’s dividends in respect of the fiscal year ended March 31, 2017 were ¥120 per share, comprising a year-end dividend of ¥60 and the interim dividend of ¥60 paid on December 12, 2016. For the fiscal year ending March 31, 2018, NTT currently expects to pay dividends of ¥150 per share in respect of the full fiscal year.

While maintaining sound financial condition and as part of its capital policy to improve capital efficiency, NTT intends to use retained earnings for investments in new business opportunities.

See also “Item 3—Key Information—Dividends.”

Significant Changes

Except as otherwise disclosed herein, there have been no significant changes since March 31, 2017, the date of the registrant’s last audited financial statements.

ITEM 9—THE OFFER AND LISTING

Trading Markets

The principal trading market for the Shares of NTT is the TSE. The Shares have been traded on the First Section of that exchange since February 1987.

The following table sets forth for the periods indicated the reported high and low sale prices of the Shares on the TSE. It also sets forth the closing highs and lows of two TSE stock indices, the Tokyo Stock Price Index (“TOPIX”) and the Nikkei Stock Average (“Nikkei 255”). The TOPIX, which is published by the TSE, is a weighted index of the market value of all stocks listed on the First Section of the TSE. As of June 15, 2017, stocks of 2,021 companies were traded on the First Section of the TSE. The Nikkei 225 is a widely followed unweighted arithmetic average of 225 selected stocks traded on the First Section of the TSE.

	TSE Price per Share		Average daily trading volume* (number of Shares)	Closing TOPIX		Closing Nikkei 225	
	High	Low		High	Low	High	Low
	(yen)			(points)		(yen)	
Fiscal Years Ended March 31,							
2013	2,215.0	1,635.0	5,335,432	1,058.10	695.51	12,635.69	8,295.63
2014	3,004.5	1,962.5	6,233,946	1,306.23	991.34	16,291.31	12,003.43
2015	3,881.5	2,525.5	4,973,928	1,592.25	1,132.76	19,754.36	13,910.16
2016	5,419.0	3,626.0	4,103,242	1,691.29	1,196.28	20,868.03	14,952.61
2017	5,180.0	4,156.0	3,857,018	1,578.51	1,192.80	19,668.01	14,864.01
Quarterly Periods for the Fiscal							
Year Ended March 31, 2016							
First Quarter	4,573.5	3,626.0	4,632,593	1,679.89	1,528.99	20,868.03	19,034.84
Second Quarter	5,066.0	4,005.0	5,302,269	1,691.29	1,375.52	20,841.97	16,930.84
Third Quarter	4,983.0	4,171.0	3,711,431	1,605.94	1,442.74	20,012.40	17,722.42
Fourth Quarter	5,419.0	4,422.0	4,950,711	1,509.67	1,196.28	18,450.98	14,952.61
Quarterly Periods for the Fiscal							
Year Ended March 31, 2017							
First Quarter	5,180.0	4,330.0	3,972,659	1,412.98	1,192.80	17,613.56	14,864.01
Second Quarter	5,113.0	4,501.0	3,647,758	1,357.41	1,209.88	17,156.36	15,106.52
Third Quarter	4,984.0	4,156.0	4,224,105	1,558.75	1,287.39	19,592.90	16,111.81
Fourth Quarter	5,135.0	4,685.0	3,586,982	1,578.51	1,495.03	19,668.01	18,650.33
2017 Monthly Periods							
January	5,135.0	4,893.0	3,985,405	1,558.45	1,495.03	19,615.40	18,650.33
February	4,968.0	4,685.0	3,584,395	1,559.51	1,507.08	19,519.44	18,805.32
March	5,013.0	4,752.0	3,245,241	1,578.51	1,512.60	19,668.01	18,909.26
April	4,946.0	4,672.0	3,996,155	1,538.89	1,452.15	19,289.43	18,224.68
May	5,390.0	4,774.0	3,538,050	1,590.70	1,530.31	19,998.49	19,144.62
June (through June 9)	5,380.0	5,226.0	3,845,900	1,613.18	1,570.24	20,239.81	19,686.32

Note: NTT conducted a two-for-one split of its common stock, with an effective date of July 1, 2015. The TSE Price per Share and numbers of Shares for Average daily trading volume for the Fiscal Years Ended March 31, 2013 through 2016 have been retrospectively adjusted to reflect the two-for-one stock split of NTT’s common stock, as if the stock split had occurred at the beginning of the first fiscal year listed above.

On June 9, 2017, the last traded price of the Shares on the TSE was ¥5,238 per Share, and the closing TOPIX and Nikkei 225 on that date were 1,591.66 points and ¥20,013.26, respectively.

NTT voluntarily delisted its ADSs from the NYSE, effective prior to the opening of trading on April 3, 2017. Even after delisting its ADSs from the NYSE, however, NTT intends to maintain its ADR program in the

United States and anticipates that its ADSs will be traded on the U.S. over-the-counter market. One ADS represents one Share and ADSs are evidenced by ADRs issued by the Depository. Furthermore, NTT authorized a two-for-one stock split of its common stock, with an effective date of July 1, 2015, at a meeting of its Board held on May 15, 2015. In connection with the stock split, NTT changed the ratio of ADRs to NTT's underlying shares from 2:1 to 1:1, beginning on July 1, 2015 (U.S. Eastern time).

As of March 31, 2017, 27,079,865 ADSs (equivalent to 27,079,865 Shares, or 1.3% of the total number of Shares outstanding on that date, excluding treasury stock) were outstanding and were held by 161 record holders of ADSs (including 152 United States record holders, who held an aggregate of 27,078,434 ADSs). In order to maintain its NYSE listing, NTT has been registered with the SEC. In connection with the completion of its voluntary delisting from the NYSE, NTT also intends to file an application for deregistering its securities from the SEC after NTT meets the necessary deregistration criteria and intends to permanently deregister and terminate its reporting obligations under the Exchange Act in the future.

The high and low sales prices of the ADSs, as reported in the composite reporting system, are as follows:

	Price per ADS		Average daily trading volume
	High	Low	
	(U.S. dollars)		
Fiscal Years Ended March 31,			
2013	24.70	20.64	470,099
2014	29.21	21.14	322,298
2015	34.08	25.07	342,414
2016	45.78	30.65	348,425
2017	49.67	38.45	289,559
Quarterly Periods for the Fiscal Year Ended March 31, 2016			
First quarter	36.85	30.65	266,722
Second quarter	40.30	33.83	316,700
Third quarter	40.19	34.65	371,585
Fourth quarter	45.78	37.99	441,740
Quarterly Periods for the Fiscal Year Ended March 31, 2017			
First quarter	47.53	41.73	299,665
Second quarter	49.67	43.95	307,275
Third quarter	46.13	38.45	249,422
Fourth quarter	44.84	41.47	301,625
2017 Monthly Periods*			
January	44.54	41.57	277,729
February	43.82	41.47	221,905
March	44.84	42.10	388,261
April	44.57	41.94	319,177
May	48.55	42.75	120,859
June (through June 9)	48.98	47.22	88,151

* NTT voluntarily delisted its ADSs from the NYSE, effective prior to the opening of trading on April 3, 2017. Price per ADS numbers in the table above for periods following the delisting reflect the price of NTT's ADSs as traded on the over-the-counter market. The last reported price per ADS at closing on March 31, 2017, the final day of trading of NTT's ADSs on the NYSE, was U.S.\$42.84.

For a discussion of the tax treatment of dividends paid to U.S. holders of ADSs, see "Item 10—Additional Information—Taxation."

ITEM 10—ADDITIONAL INFORMATION

Description of the Shares

Set out below is information concerning the Shares, including summaries of certain provisions of NTT's Articles of Incorporation and Share Handling Regulations and of the Companies Act relating to joint stock corporations (*kabushiki kaisha*) and related legislation, all as currently in effect. For more information regarding the NTT Act and a description of the purpose of NTT's business as described in Article 2 of its Articles of Incorporation and in the NTT Act, see "Item 4—Information on the Company—Regulations—NTT Act."

General

All issued Shares are fully-paid and non-assessable. On January 5, 2009, a central clearing system for shares of Japanese listed companies was established pursuant to the Act on Book-Entry Transfer of Company Bonds, Shares, etc. (including regulations promulgated thereunder, the "Book-Entry Transfer Act"), and the shares of all Japanese companies listed on any Japanese stock exchange, including the Shares, became subject to this system. At present, Japan Securities Depository Center, Inc. ("JASDEC") is the only institution that has been designated by the relevant authorities as a clearing house permitted to engage in the clearing operations of shares of Japanese listed companies under the Book-Entry Transfer Act. Under the clearing system, in order for any person to hold, sell or otherwise dispose of shares of Japanese listed companies, such person must have an account at an account-managing institution unless such person itself has an account at JASDEC. "Account-managing institutions" are financial instruments traders (i.e., securities companies), banks, trust companies and certain other financial institutions which meet the requirements prescribed by the Book-Entry Transfer Act and are authorized to conduct book entry activities on the clearing system. Only those financial institutions that meet certain additional requirements of the Book-Entry Transfer Act can open an account directly at JASDEC.

Under the Book-Entry Transfer Act, any transfer of shares is effected through book entry, and title to the shares passes to the transferee at the time when the number of the transferred shares is recorded in the transferee's account at an account-managing institution or JASDEC, as applicable. The holder of an account at an account-managing institution or JASDEC is presumed to be the legal owner of the shares held in such account.

Under the Companies Act and the Book-Entry Transfer Act, in order to assert shareholders' rights against NTT, except in limited circumstances, a shareholder must have its name and address registered in NTT's register of shareholders. Under the clearing system, such registration is made upon NTT's receipt of the necessary information from JASDEC. See "—Transfer Agent" and "—Record Date" below.

The registered holder of the deposited Shares underlying the ADSs is the Depository for the ADSs. Accordingly, holders of ADSs will not be able to directly assert their shareholders' rights against NTT.

Non-resident shareholders are required to appoint a standing proxy in Japan or provide a mailing address in Japan. Each such shareholder must give notice of such standing proxy or mailing address through the relevant account-managing institutions and JASDEC to NTT. Japanese securities firms and commercial banks customarily act as standing proxies and provide related services at market rates. Notices from NTT to non-resident shareholders are delivered to such standing proxies or mailing addresses.

Distributions of Surplus

General

Under the Companies Act, distributions of cash or other assets by joint stock corporations to their shareholders, commonly called "dividends," are referred to as "distributions of surplus" ("surplus" is defined below under "—Restriction on Distributions of Surplus"). NTT may make distributions of surplus to its shareholders any number of times during any fiscal year, subject to certain limitations described below under "—Restriction on Distributions of Surplus." Distributions of surplus are required in principle to be authorized by a

resolution of a general meeting of shareholders, but may also be made pursuant to a resolution of the Board if all the requirements described in (a) through (c) are met:

- (a) NTT's Articles of Incorporation provide that the Board has the authority to determine distributions of surplus;
- (b) the normal term of office of NTT's Members of the Board terminates on or prior to the date of the conclusion of the ordinary general meeting of shareholders held for the last fiscal year ending within one year after the election of the Members of the Board to office; and
- (c) NTT's non-consolidated annual financial statements and certain documents for the latest fiscal year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice.

At present, NTT does not meet the requirements described in (a) and (b) above. Nevertheless, NTT is permitted to make distributions of surplus in cash as an interim dividend to its shareholders by resolutions of its Board once per fiscal year under NTT's Articles of Incorporation and the Companies Act. Under the NTT Act, approval of the Minister is also required for any distribution of surplus. See "Item 4—Information on the Company—Regulations—NTT Act."

Under NTT's Articles of Incorporation, a year-end dividend may be distributed pursuant to a resolution of a general meeting of shareholders to (i) shareholders of record and (ii) the persons or bodies listed in "Item 10—Additional Information—Exchange Controls and Other Limitations Affecting Security Holders—Restrictions on Foreign Ownership," all or some of whose Shares have not been entered or recorded in the register of NTT pursuant to Article 6 of the NTT Act, and in the case of each of (i) and (ii), who are identified as shareholders as of March 31 of the relevant year in the notices issued by JASDEC under Article 151, Paragraph 1 of the Book-Entry Transfer Act. An interim dividend may be distributed pursuant to a resolution of the Board to (i) shareholders of record and (ii) the persons or bodies listed in "Item 10—Additional Information—Exchange Controls and Other Limitations Affecting Security Holders—Restrictions on Foreign Ownership" all or some of whose Shares have not been entered or recorded in the register of NTT pursuant to Article 6 of the NTT Act, and in the case of each of (i) and (ii), who are identified as shareholders as of September 30 of the relevant year in the notices issued by JASDEC under Article 151, Paragraph 1 of the Book-Entry Transfer Act. NTT's Articles of Incorporation exempt NTT from the obligation to make distributions of surplus to a shareholder after three years have elapsed from the date on which such shareholder failed to accept a distribution.

Distributions of surplus may be made in cash or in kind (except for interim dividends, which must be paid in cash) in proportion to the number of Shares held by each shareholder. A resolution of a general meeting of shareholders or the Board authorizing a distribution of surplus must specify the kind and aggregate carrying amounts of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of surplus is to be made in kind, NTT may, pursuant to a resolution of a general meeting of shareholders, grant a right to its shareholders to require NTT to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of surplus must be approved by a special resolution of a general meeting of shareholders (see "—Voting Rights" for more information regarding "special resolutions").

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividends to be paid. The price of the Shares generally goes ex-dividend on the second business day prior to the record date.

Restriction on Distributions of Surplus

When NTT makes a distribution of surplus, it must, until the sum of its additional paid-in capital and legal reserve reaches one quarter of its stated capital, set aside in its additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of surplus so distributed, in accordance with an ordinance of the Ministry of Justice.

The amount of surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D - (E + F + G)$$

In the above formula:

- “A” = the total amount of other capital surplus and other retained earnings, as each such amount appears in NTT’s non-consolidated balance sheet as of the end of NTT’s last fiscal year,
- “B” = the amount of the consideration received for any treasury stock disposed of by NTT after the end of NTT’s last fiscal year less the carrying amounts thereof,
- “C” = the amount of any reduction to NTT’s stated capital made by NTT after the end of its last fiscal year less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any),
- “D” = the amount of any reduction to NTT’s additional paid-in capital or legal reserve after the end of NTT’s last fiscal year less the portion thereof that has been transferred to stated capital (if any),
- “E” = the carrying amounts of any treasury stock cancelled by NTT after the end of NTT’s last fiscal year,
- “F” = the total carrying amounts of any surplus distributed by NTT to its shareholders after the end of NTT’s last fiscal year, and
- “G” = certain other amounts set forth in ordinances of the Ministry of Justice, including (if NTT has reduced surplus and increased its stated capital, additional paid-in capital or legal reserve after the end of NTT’s last fiscal year) the amount of such reduction and (if NTT has distributed surplus to its shareholders after the end of its last fiscal year) the amount set aside in its additional paid-in capital or legal reserve (if any) as required by ordinances of the Ministry of Justice.

The aggregate carrying amounts of surplus distributed by NTT may not exceed a prescribed distributable amount (the “Distributable Amount”), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be equal to the amount of surplus less the aggregate of the following:

- (a) the carrying amounts of NTT’s treasury stock, as of the effective date of the distribution,
- (b) the amount of consideration for NTT’s treasury stock that it disposed of after the end of the last fiscal year, and
- (c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one-half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on NTT’s non-consolidated balance sheet as of the end of NTT’s last fiscal year), all or a part of such excess amount as calculated in accordance with an ordinance of the Ministry of Justice.

NTT may elect to be treated as a company with respect to which consolidated balance sheets should also be taken into consideration in the calculation of the Distributable Amount (*renketsu haito kisei tekiyo kaisha*). In this case, NTT would be required to further deduct from the amount of surplus the excess amount, if any, of (x) the total amount of shareholders’ equity appearing on its non-consolidated balance sheet as of the end of the last fiscal year and certain other amounts set forth by the ordinance of the Ministry of Justice over (y) the total amount of shareholders’ equity and certain other amounts set forth by the ordinance of the Ministry of Justice appearing on its consolidated balance sheet as of the end of the last fiscal year.

If NTT has prepared interim financial statements as described below, and if such interim financial statements have been approved by the Board or (if so required by the Companies Act) by a general meeting of

shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for shares of treasury stock that NTT has disposed of, during the period in respect of which such interim financial statements have been prepared. NTT may prepare non-consolidated interim financial statements consisting of a balance sheet as of any date subsequent to the end of the last fiscal year and an income statement for the period from the first day of the current fiscal year to the date of such balance sheet. Interim financial statements so prepared by NTT must be audited by the members of its Audit & Supervisory Board and independent certified public accountants, as required by ordinances of the Ministry of Justice.

Capital and Reserves

When NTT issues new Shares, the entire amount of money or other assets paid or contributed by subscribers for such Shares is required to be accounted for as stated capital, although NTT may account for an amount not exceeding one-half of the amount of such subscription money or other assets as additional paid-in capital by resolution of the Board.

NTT may reduce its additional paid-in capital or legal reserve generally by resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as stated capital. On the other hand, NTT may reduce its stated capital generally by special resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as additional paid-in capital. In addition, NTT may reduce its surplus and increase either (i) stated capital or (ii) additional paid-in capital and/or legal reserve by the same amount, in either case, by resolution of a general meeting of shareholders.

Stock Splits

NTT may at any time split the issued Shares into a greater number of Shares by resolution of its Board. When a stock split is to be made, so long as the only type of NTT's outstanding stock is its common stock, it may increase the number of authorized Shares to the extent that the ratio of such increase in authorized Shares does not exceed the ratio of such stock split, by amending its Articles of Incorporation, which amendment may be made without shareholder approval. Under the NTT Act, NTT is required to obtain the approval of the Minister for any amendment of its Articles of Incorporation. See "Item 4—Information on the Company—Regulations—NTT Act."

Before undertaking a stock split, NTT must give public notice of the stock split specifying a record date not less than two weeks after the date of the notice. Under the rules of the clearing system, NTT must also inform JASDEC of certain matters regarding a stock split promptly after the resolution of its Board approving such stock split. On the effective date of the stock split, the numbers of Shares recorded in all accounts held by NTT's shareholders at account-managing institutions or JASDEC will be increased in accordance with the applicable ratio.

Elimination of Fractional Shares and Adoption of Unit Share System

NTT's Articles of Incorporation were amended on January 4, 2009 pursuant to a resolution of its ordinary general meeting of shareholders held on June 25, 2008 to provide for the fact that the fractional share system was abolished as of January 4, 2009 as a result of changes to the Companies Act. NTT adopted a unit share system which provides that 100 Shares constitute one "unit."

Under the unit share system, a shareholder in principle has one vote for each whole unit of Shares it holds. Shares constituting less than one whole unit carry no voting rights and are excluded for the purposes of calculating a quorum for voting purposes. Moreover, holders of Shares constituting less than one whole unit have no other shareholder rights, except certain rights specified by law and in NTT's Articles of Incorporation, including the right to receive any distributions of surplus.

Under the rules of the clearing system, Shares constituting less than one whole unit are transferable. Under the rules of the TSE, however, except in certain limited circumstances such as the consolidation of shares for the purpose of changing the number of shares constituting one whole unit, Shares constituting less than one whole unit do not comprise a trading unit, and accordingly may not be sold on the TSE.

Holders of Shares constituting less than one whole unit may at any time request that NTT purchase such Shares through the relevant account-managing institution and JASDEC. Pursuant to NTT's Articles of Incorporation, any such holder may also request that NTT sell to such holder Shares constituting less than one whole unit which, when added to the Shares of such holder constituting less than one whole unit, shall constitute one whole unit. Under the clearing system, such request must be made through the relevant account-managing institution and JASDEC. Such purchase or sale of Shares will be effected at the current market price as set out in the Companies Act.

NTT's Board is permitted to reduce the number of Shares that will constitute a unit or abolish the unit share system entirely by amending its Articles of Incorporation without approval by shareholders. A special resolution of a general meeting of shareholders is required to increase the number of Shares that will constitute a unit. The number of Shares constituting a unit may not exceed the lesser of 1,000 and one-two hundredth of the total number of issued Shares.

General Meetings of Shareholders

The ordinary general meeting of shareholders is customarily held in June of each year. In addition, NTT may hold an extraordinary general meeting of shareholders whenever necessary. Notice of a general meeting of shareholders stating, among other things, the place, time and purpose thereof must be given to each shareholder that has voting rights (or, in the case of a non-resident shareholder, to its standing proxy or mailing address in Japan) at least two weeks prior to the date set for the meeting. The record date for an ordinary general meeting of shareholders is March 31 of each year.

Any shareholder holding at least 300 voting rights or 1% of the total number of voting rights for six months or longer may propose a matter for consideration at a general meeting of shareholders by submitting a request to a Representative Director at least eight weeks prior to the date of such meeting. If NTT's Articles of Incorporation so provide, any of the minimum percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened, as applicable.

Voting Rights

A holder of Shares constituting one or more units is in principle entitled to one vote for each whole unit of Shares. However, in general, neither NTT nor any corporate or other entity, one-quarter or more of the total voting rights of which are directly or indirectly held by NTT, has voting rights in respect of such Shares.

Except as otherwise provided by law or in NTT's Articles of Incorporation, a resolution can be adopted by a majority vote of all shareholders present at a general meeting of shareholders and entitled to exercise voting rights. NTT's Articles of Incorporation provide that the quorum for election of its Members of the Board and Members of the Audit & Supervisory Board is one-third of the total number of voting rights of all shareholders entitled to exercise voting rights. NTT's shareholders are not entitled to cumulative voting in the election of its Members of the Board. Shareholders may exercise their voting rights in writing, by electronic means or through proxies, provided that the proxies are, in principle, also shareholders who have voting rights.

The Companies Act provides that certain important matters shall be approved by a "special resolution" of a general meeting of shareholders. Under NTT's Articles of Incorporation, the quorum for a special resolution is

one-third of the total number of voting rights of all shareholders entitled to exercise voting rights, and the approval of two-thirds or more of the voting rights of all shareholders present at the meeting is required for adopting a special resolution. Such important matters include:

- (i) purchase of Shares by NTT from a specific shareholder other than one of NTT's subsidiaries;
- (ii) combination of Shares;
- (iii) issuance or transfer of new Shares or existing Shares held by NTT as treasury stock to persons other than the shareholders at a "specially favorable" price;
- (iv) issuance of stock acquisition rights (including those embedded in bonds with stock acquisition rights) to persons other than NTT's shareholders under "specially favorable" conditions or at a "specially favorable" price;
- (v) removal of any of NTT's Members of the Audit & Supervisory Board;
- (vi) any exemption from liability of any of NTT's Members of the Board, Members of the Audit & Supervisory Board or independent auditors;
- (vii) distribution of surplus in kind with respect to which shareholders are not granted the right to require NTT to make distribution in cash instead of in kind;
- (viii) reduction of stated capital;
- (ix) any amendment to NTT's Articles of Incorporation;
- (x) transfer of all or a substantial part of NTT's business;
- (xi) transfer of the whole or a part of NTT's shares or equity interest in any of NTT's subsidiaries, if such transfer meets certain requirements;
- (xii) taking over of the entire business of another company;
- (xiii) merger;
- (xiv) divestiture;
- (xv) establishment of a parent and wholly-owned subsidiary relationship by way of a share transfer (*kabushiki-iten*) or share exchange (*kabushiki-kokan*); and
- (xvi) dissolution or consolidation.

However, under the Companies Act, no shareholder approval, whether by an ordinary resolution or a special resolution at a general meeting of shareholders, is required for any matter described in (viii) through (xv) above, and such matter may instead be decided by the board of directors, if it satisfies certain criteria prescribed by the Companies Act. Under the NTT Act, the approval of the Minister is required for some of the above matters. See "Item 4—Information on the Company—Regulations—NTT Act."

Liquidation Rights

In the event of NTT's liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among holders of Shares in proportion to the respective numbers of Shares they hold.

Subscription Rights

Holders of Shares have no pre-emptive rights. Authorized but unissued Shares may be issued at such times and upon such terms as NTT's Board determines, subject to the limitations on the issuance of new Shares at a "specially favorable" price mentioned above in "—Voting Rights." NTT's Board may, however, determine that shareholders be given subscription rights to Shares, in which case such rights must be given on uniform terms to all holders of Shares as of a record date not less than two weeks after public notice has been given. Each

shareholder to whom such rights are given must also be given at least two weeks' prior notice of the date on which such rights expire. Under the NTT Act, NTT is required to obtain the approval of the Minister to issue new shares, subject to certain exceptions. See "Item 4—Information on the Company—Regulations—NTT Act."

Stock Acquisition Rights

NTT may issue stock acquisition rights (*shinkabu yoyakukēn*). Holders of stock acquisition rights are entitled to acquire Shares from NTT upon payment of the applicable exercise price, and subject to other terms and conditions thereof. NTT may also issue bonds with stock acquisition rights (*shinkabu yoyakukēn-tsuki shasai*). The issuance of stock acquisition rights and bonds with stock acquisition rights may be authorized by NTT's Board unless such issuances are made under "specially favorable" conditions or at a "specially favorable" price, as described above in "—Voting Rights."

Under the NTT Act, NTT is required to obtain the approval of the Minister to issue bonds with stock acquisition rights. See "Item 4—Information on the Company—Regulations—NTT Act."

Transfer Agent

NTT's transfer agent is Sumitomo Mitsui Trust Bank, Limited ("SMTB"). SMTB maintains NTT's register of shareholders and registers the names and addresses of NTT's shareholders and other relevant information in NTT's register of shareholders upon notice thereof from JASDEC, as described in "—Record Date" below.

Record Date

March 31 is the record date for the determination of shareholders entitled to vote at the ordinary general meeting of shareholders. In addition, by a resolution of the Board and after giving at least two weeks' prior public notice, NTT may at any time set a record date in order to determine the shareholders who are entitled to certain rights pertaining to Shares.

Under the rules of the clearing system, NTT is required to give notice of each record date to JASDEC promptly after the resolution of NTT's Board determining such record date. JASDEC is required to promptly give NTT notice of the names and addresses of NTT's shareholders, the numbers of Shares held by them and other relevant information as of such record date.

Acquisition by NTT of Shares

NTT may acquire Shares (i) by soliciting all of its shareholders to offer to sell their Shares (in this case, certain terms of such acquisition, such as the total number of Shares to be purchased and the total amount of consideration, shall be set by an ordinary resolution of a general meeting of shareholders in advance, and the acquisition shall be effected pursuant to a resolution of the Board), (ii) from a specific shareholder other than any of NTT's subsidiaries (pursuant to a special resolution of a general meeting of shareholders), (iii) from any of NTT's subsidiaries (pursuant to a resolution of the Board), or (iv) by way of purchase on the TSE, on which the Shares are listed, or by way of tender offer (in either case pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the Board). In the case of (ii) above, any other shareholder may make a request to NTT's Representative Director that such other shareholder be included as a seller in the proposed purchase; provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the higher of (x) the last trading price of the Shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (ii) above was adopted (or, if there is no trading in the Shares on the stock exchange or if the stock exchange is not open on such day, the price at which the Shares are first traded on such stock exchange thereafter) and (y) if the Shares are subject to a tender offer on the day immediately preceding the date on which the resolution mentioned in (ii) above was adopted, the price of the Shares under the agreement with respect to such tender offer on such day.

The total amount of the purchase price of Shares may not exceed the Distributable Amount, as described in “—Distributions of Surplus—Restriction on Distributions of Surplus.”

NTT may hold the Shares acquired in compliance with the Companies Act, and may generally dispose of or cancel such Shares by resolution of its Board.

Disposal of Shares by NTT

NTT is no longer required to send notices to a shareholder once NTT has continuously been unable to deliver notices for five years or more to his or her address registered in NTT’s register of shareholders or at any alternative address otherwise provided to NTT.

In the above case, if the relevant shareholder also fails to receive distributions of surplus on the Shares continuously for five years or more at his or her address registered in NTT’s register of shareholders or at an alternative address otherwise provided to NTT, then after the five years NTT may in general dispose of such Shares at their then market price and either hold the proceeds of such disposition or deposit them on behalf of the relevant shareholder.

Acquisition and Disposal of Shares by NTT during the Last Three Fiscal Years

Prior to the fiscal year ended March 31, 2014, NTT engaged in several Share repurchases through transactions executed on the TSE in accordance with applicable Japanese law, and in certain cases the Minister of Finance sold some of the Shares it held in NTT to NTT.

During the fiscal year ended March 31, 2015, at the Board meeting held on November 7, 2014, the Board approved a resolution for the repurchase by NTT of up to 51,000,000 of its Shares at an aggregate cost not to exceed ¥350 billion during the period between November 10, 2014 and June 30, 2015. In accordance with this resolution, NTT acquired a total of 38,000,000 Shares from the Minister of Finance and other shareholders on November 14, 2014 at an aggregate cost of ¥249.166 billion. Further, NTT acquired a total of 1,168,100 Shares from the Minister of Finance and other shareholders on November 28, 2014 at an aggregate cost of ¥7.429 billion. In addition, NTT carried out further Share repurchases (not including Shares held by the Minister of Finance) pursuant to which it acquired a total of 51,000,000 Shares at an aggregate cost of ¥338.117 billion during the period between January 6, 2015 and March 6, 2015. As a result of these transactions, together with stock repurchases by NTT due to the purchase of less-than-one-unit shares requested by holders of less-than-one-unit shares, and sale of treasury stock by NTT in response to requests of holders of less-than-one-unit shares to increase less-than-one-unit shares held, the total number of outstanding Shares (excluding treasury stock) as of March 31, 2015 was 1,058,599,629.

During the fiscal year ended March 31, 2016, at the Board meeting held on May 15, 2015, the Board approved a resolution for a two-for-one stock split, with an effective date of July 1, 2015, of NTT’s common stock owned by all shareholders as of the record date. In addition, at the Board meeting held on August 5, 2015, the Board approved a resolution for the repurchase by NTT of up to 21,000,000 of its Shares at an aggregate cost not to exceed ¥100 billion during the period between August 6, 2015 to October 30, 2015. In accordance with this resolution, NTT acquired a total of 21,000,000 Shares for ¥93.6 billion between August 6, 2015 and October 30, 2015. No Shares were acquired from the Minister of Finance. Further, on November 13, 2015, NTT cancelled 177,000,000 of its Shares. As a result of these transactions, together with stock repurchases by NTT due to the purchase of less-than-one-unit shares requested by holders of less-than-one-unit shares, and sale of treasury stock by NTT in response to requests of holders of less-than-one-unit shares to increase less-than-one-unit shares held, the total number of outstanding Shares (excluding treasury stock) as of March 31, 2016 was 2,096,139,201.

During the fiscal year ended March 31, 2017, at the Board meeting held on May 13, 2016, the Board approved a resolution for the repurchase by NTT of up to 68,000,000 of its Shares at an aggregate cost not to

exceed ¥350 billion during the period between May 16, 2016 to March 31, 2017. In accordance with this resolution, NTT acquired a total of 59,038,100 Shares for ¥267.4 billion from the Minister of Finance and other shareholders. Further, at the Board meeting held on December 12, 2016, the Board approved a resolution for the repurchase by NTT of up to 33,000,000 of its Shares at an aggregate cost not to exceed ¥150 billion during the period between December 13, 2016 to June 30, 2017. In accordance with this resolution, NTT acquired a total of 21,693,800 Shares for ¥106.8 billion during the period between December 19, 2016 to March 31, 2017. No Shares were acquired from the Minister of Finance. As a result of these transactions, together with stock repurchases by NTT due to the purchase of less-than-one-unit shares requested by holders of less-than-one-unit shares, and sale of treasury stock by NTT in response to requests of holders of less-than-one-unit shares to increase less-than-one-unit shares held, the total number of outstanding Shares (excluding treasury stock) as of March 31, 2017 was 2,015,367,511.

Material Contracts

All contracts concluded by NTT during the two years preceding this filing were entered into in the ordinary course of business.

Exchange Controls and Other Limitations Affecting Security Holders

General

The Foreign Exchange and Foreign Trade Act of Japan, as amended, and the cabinet orders and ministerial ordinances issued thereunder (collectively, the “Foreign Exchange Regulations”) govern certain matters relating to the acquisition and holding of shares of equity securities of Japanese corporations by “exchange non-residents” and “foreign investors” (each as defined below). For purposes of determining ownership interests under the Foreign Exchange Regulations, the Depository is deemed to be the owner of the Shares underlying the ADSs.

“Exchange residents” are individuals who reside within Japan and corporations whose principal offices are located within Japan. “Exchange non-residents” are individuals who do not reside within Japan and corporations whose principal offices are located outside Japan. Generally, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents, but branches and other offices of non-resident corporations located within Japan are regarded as exchange residents. “Foreign investors” are (i) individuals who are exchange non-residents, (ii) corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan, and (iii) corporations not less than 50% of the voting rights of which are directly or indirectly held by (i) and/or (ii) or a majority of the officers (or officers having the power of representation) of which are individuals who are exchange non-residents.

Acquisition of Shares

Acquisition by an exchange non-resident of shares of stock of a Japanese corporation from an exchange resident generally requires subsequent reporting by the exchange resident. Such subsequent reporting is not required where (i) the amount of shares is ¥100 million or less; or (ii) the purchase transaction is effected by certain financial institutions acting as the agent or intermediary purchased in the transaction, as prescribed by the Foreign Exchange Regulations.

Notwithstanding the foregoing, if the proposed transaction falls within the category of “inward direct investment,” the transaction is subject to different regulations. The term “inward direct investment” in relation to transactions in shares means, in relevant part, an acquisition of shares of a listed corporation by a foreign investor (whether from an exchange resident, an exchange non-resident or any other foreign investor) that results in such investor, together with parties who have a special relationship with such investor, holding 10% or more of the total number of issued shares of such corporation or, if such investor, together with such parties, already holds 10% or more of the total number of issued shares of such corporation, acquisition of additional shares in such corporation.

In the event that Shares of NTT are acquired in a transaction which at such time falls within the category of an inward direct investment requiring prior notification, the foreign investor who makes such investment is in principle required to file a prior notification with the Minister of Finance and the Minister 30 days prior to such transaction. Under certain circumstances, after a prior notification is filed, the said ministers may recommend the modification or abandonment of the proposed acquisition and, if the recommendation is not accepted, order its modification or abandonment.

The acquisition of shares by shareholders who are exchange non-residents by way of a stock split is not subject to any notification requirements.

American Depositary Shares

None of the deposit of Shares by an exchange non-resident, the issuance by the Depositary to an exchange non-resident of ADRs evidencing the ADSs created by such deposit in exchange therefor or the withdrawal of the underlying Shares by an exchange non-resident upon surrender of ADRs is subject to any formalities or restrictions referred to under “Acquisition of Shares” above. Notwithstanding the foregoing, notification as noted under “Acquisition of Shares” above may be required where, as a result of such deposit or withdrawal, the aggregate number of Shares held by the Depositary or the holder surrendering ADRs, as the case may be, would be 10% or more of the total number of issued Shares.

Dividends and Proceeds of Sale

Under the Foreign Exchange Regulations, dividends paid on, and the proceeds of sales in Japan of, Shares held by exchange non-residents may in general be converted into any foreign currency and repatriated abroad.

Reporting of Substantial Shareholdings

The Financial Instruments and Exchange Act and its related regulations require any person who has become, beneficially and solely or jointly, a holder of issued voting shares (excluding treasury stock) amounting to more than 5% of the total issued shares of a company listed on any Japanese stock exchange to file with a local finance bureau of the Ministry of Finance (the “MOF”) a report concerning such shareholdings within five business days. The local finance bureau of the MOF is authorized to review such filing. With certain exceptions, a similar report must also be made in respect of any subsequent change of 1% or more in any such holding or of any change in material matters set forth in any reports previously filed. For this purpose, voting shares issuable to such person upon conversion of convertible securities or the exercise of stock acquisition rights are taken into account in determining both the number of voting shares held by such holder and the issuer’s total issued share capital. Such report must be filed through the Electronic Disclosure for Investors’ NETwork (EDINET).

Restrictions on Foreign Ownership

Foreign nationals and foreign corporations have been permitted to own Shares since August 1, 1992. Currently, NTT is prohibited from registering in its register of shareholders shareholder ownership, individually or in the aggregate, equal to or exceeding one-third of NTT’s total voting rights by the persons or bodies who are identified as shareholders in the notices issued by JASDEC under Article 151, Paragraph 1 or 8 of the Book-Entry Transfer Act, listed below:

- (i) any person who is not of Japanese nationality;
- (ii) any foreign government or any of its representatives;
- (iii) any foreign juridical person or association; and

- (iv) any juridical person or association:
 - (x) which directly owns 10% or more of NTT's voting rights; and
 - (y) 10% or more of the voting rights of which are directly owned by the persons or bodies listed in (i) through (iii) above.

(For the purpose of (iv) above, the amount of NTT's voting rights under foreign ownership is calculated by multiplying the percentage of NTT's voting rights held directly by the relevant juridical person or association by the percentage of voting rights of such juridical person or association held by persons or bodies listed in (i) through (iii) above.)

Under NTT's Articles of Incorporation, however, a year-end dividend may be distributed pursuant to a resolution of a general meeting of shareholders to (a) shareholders of record and (b) persons or bodies listed in (i) through (iv) above, all or some of whose Shares have not been entered or recorded in the register of shareholders of NTT, and in the case of each of (a) and (b), who are identified as shareholders as of March 31 of the relevant year in the notices issued by JASDEC under Article 151, Paragraph 1 of the Book-Entry Transfer Act. An interim dividend may be distributed pursuant to a resolution of the Board to (a) shareholders of record and (b) persons or bodies listed in (i) through (iv) above, all or some of whose Shares have not been entered or recorded in the register of NTT, and in the case of each of (a) and (b), who are identified as shareholders as of September 30 of the relevant year in the notices issued by JASDEC under Article 151 paragraph 1 of the Book-Entry Transfer Act. For details of this, see "Item 10—Additional Information—Description of the Shares—Distributions of Surplus."

As of March 31, 2017, foreign ownership of NTT's Shares was 29.9%.

JASDEC will provide NTT with notice with respect to shareholders as of record dates and certain other dates. This notice will indicate (a) any shareholders constituting persons or bodies listed in (i) through (iii) above (without specifying the items under which they fall) and (b) any juridical person or association, 10% or more of the voting rights of which are directly owned by such persons or bodies. Although NTT will, upon receipt of each such notice, update its register of shareholders according to the information contained in such notice, NTT will be prohibited from registering foreign shareholder ownership equal to or exceeding one-third of NTT's total voting rights. For details of the electronic share clearing system, see "Item 10—Additional Information—Description of the Shares—General."

Taxation

Japanese Taxation

The following is a summary, prepared by Anderson Mori & Tomotsune, Japanese counsel to NTT, of the principal Japanese tax consequences to an owner of Shares or ADSs who is an individual not resident in Japan or a non-Japanese corporation, in either case having no permanent establishment in Japan ("non-resident holder"). The statements regarding Japanese tax laws set forth below are based on the laws in force and as interpreted by the Japanese taxation authorities as of the date hereof and are subject to changes in the applicable Japanese laws or double taxation conventions occurring after that date. This summary is not exhaustive of all possible tax considerations which may apply to a particular investor, and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of Shares or ADSs, including specifically the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident, and any tax treaty between Japan and their country of residence, by consulting their own tax advisors.

Generally, a non-resident holder is subject to Japanese withholding tax on dividends paid by NTT. Stock splits are not subject to Japanese income tax.

In the absence of any applicable tax treaty, convention or agreement reducing the maximum rate of withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax

applicable to dividends paid by NTT to a non-resident holder is 20.42% for dividends due and payable on or before December 31, 2037 and will be 20% on or after January 1, 2038. However, with the exception of any individual shareholder who holds 3% or more of the total issued Shares, the withholding tax rate with respect to dividends paid by NTT to a non-resident holder is reduced to (i) 15.315% for dividends due and payable on or before December 31, 2037 and (ii) 15% for dividends due and payable on and after January 1, 2038. Due to the imposition during the period beginning on January 1, 2013 and ending on December 31, 2037 of a special additional income tax (2.1% of the original withholding tax amount) to procure funds for reconstruction following the Great East Japan Earthquake, the original withholding tax rates of 15% and 20%, as applicable, have increased, respectively, to 15.315% and 20.42%.

Under the Convention between the United States of America and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Tax on Income (the “Convention”), the maximum rate of Japanese withholding tax that may be imposed on dividends paid to a United States resident (within the meaning of the Convention) not having a “permanent establishment” (as defined therein) in Japan is limited to 10% for most qualified portfolio investors and 5% if the beneficial owner is a qualified company that owns, directly or indirectly, on the date on which entitlement to the dividend is determined, at least 10% but not more than 50% of the voting stock of the issuing company. If the protocol amending the Convention, signed on January 24, 2013, takes effect, the threshold in the preceding sentence will be amended to “less than 50%.” The effective date for the amendment to the Convention had not yet been determined as of June 9, 2017. The Convention provides that no Japanese tax will be imposed on dividends paid to a qualified pension fund that is a United States resident if such dividends are not derived from the carrying on of a business, directly or indirectly, by such pension fund. Under Japanese tax law, these treaty rates will apply in cases where the maximum tax rate that is to be applied on the basis of tax treaties is less than the tax rate set forth in the preceding paragraph applied on the basis of Japanese tax law.

“Non-resident holders” eligible to receive a reduced treaty rate for Japanese taxes withheld at the source with respect to any dividends payable on Shares must submit an application through the withholding agent regarding the Convention to the relevant tax authorities prior to the dividend payment. A standing proxy of a “non-resident holder” may submit such application on his or her behalf. In addition, a simplified special application filing procedure is available for non-resident holders of Shares to claim treaty benefits of exemption from or reduction of Japanese withholding tax. With regard to ADSs, if a depository institution or its representative has submitted both an original form and a copy of the two applications regarding the Convention, such reduced tax rate shall apply (one of these forms is Form 4, “Extension of Time for Withholding of Tax on Dividends with respect to Foreign Depository Receipt,” which is to be submitted to the head of the district tax office through the payor of the dividend by the day prior to payment of the dividend, and the other form is Form 5, “Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Dividends with respect to Foreign Depository Receipts,” which is to be submitted to the head of the district tax office through the payor of the dividend by no later than eight months from the day after the record date for payment of the dividend regarding which the related Form 4 was submitted). To claim the reduced tax rate, a non-resident holder of ADSs must submit a certification with respect to taxpayer status, place of residence and beneficial ownership (if applicable), and must submit any other information or documentation requested by the depository institution. Non-resident holders of ADSs who do not submit an application in advance generally may request a refund from the relevant tax authorities for taxes withheld at the source in excess of the tax rate under the Convention.

For purposes of the Convention and Japanese tax law, United States holders of ADSs (or ADRs evidencing ADSs) will be treated as the owners of the Shares underlying the ADSs.

Gains derived from the sale of Shares or ADSs by a non-resident holder, either outside Japan or within Japan, are generally not subject to Japanese income or corporate taxes.

An individual who has acquired Shares or ADSs as legatee, heir or donee may be required to pay Japanese inheritance and gift taxes at progressive rates even if the acquiring individual, deceased or donor (as the case may be) is not a Japanese resident.

United States Taxation

The following discussion is based on the advice of Milbank, Tweed, Hadley & McCloy LLP, United States counsel to NTT, with respect to United States federal income tax laws presently in force. The discussion summarizes the principal United States federal income tax consequences of an investment in ADSs or Shares, but it is not a full description of all tax considerations that may be relevant to a decision to purchase ADSs or Shares. In particular, the discussion is directed only to U.S. holders that will hold ADSs or Shares as capital assets and that have the United States dollar as their functional currency. It does not address the tax treatment of U.S. holders that are subject to special tax rules, such as banks, dealers, traders who elect to mark to market, insurance companies, tax-exempt entities, persons holding an ADS or Share as part of a straddle, hedging, conversion or constructive sale transaction and holders of 10% or more of the voting Shares. It also does not address any state or local tax consequences and does not address the United States estate tax or gift tax, the Medicare tax on net investment income or the United States alternative minimum tax. NTT believes, and the discussion therefore assumes, that it is not and will not become a passive foreign investment company for United States federal income tax purposes. **HOLDERS SHOULD CONSULT THEIR TAX ADVISORS ABOUT THE UNITED STATES FEDERAL, STATE AND LOCAL TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF ADSs OR SHARES.**

As used herein, “U.S. holder” means a beneficial owner of ADSs or Shares that is a United States individual citizen or resident, a corporation or partnership created or organized in the United States or under the laws of the United States or any state thereof or the District of Columbia (such a corporation herein referred to as a “U.S. corporation”), a trust subject to the control of a U.S. person and the primary supervision of a U.S. court, or an estate the income of which is subject to United States federal income taxation regardless of its source. The term “non-U.S. holder” refers to any beneficial owner of ADSs or Shares other than a U.S. holder. If the obligations contemplated by the Deposit Agreement are performed in accordance with its terms, holders of ADSs (or ADRs evidencing ADSs) will be treated for United States federal income tax purposes as the owners of the Shares represented by those ADSs.

Cash dividends (including the amount of any Japanese taxes withheld) paid with respect to the Shares represented by ADSs generally must be included in the gross income of a U.S. holder as ordinary income when the dividends are received (i) by the Depositary in the case of a U.S. holder holding ADSs or (ii) by the U.S. holder in the case of a U.S. holder holding Shares. Dividends paid in yen must be included in gross income in a United States dollar amount based on the exchange rate in effect on the day of receipt by the Depositary or, in the case of Shares, the U.S. holder. Any gain or loss recognized upon a subsequent sale or conversion of the yen for a different amount will be United States source ordinary income or loss. Generally, under current law, a maximum 20% U.S. tax rate is imposed on the dividend income of a non-corporate U.S. holder who satisfies certain holding period requirements with respect to dividends paid by a U.S. corporation or “qualified foreign corporation.” A qualified foreign corporation generally includes a corporation other than a U.S. corporation if (i) its shares are readily tradable on an established securities market in the United States or (ii) it is eligible for benefits under a comprehensive United States income tax treaty. Clause (i) will apply with respect to ADSs if such ADSs are readily tradable on an established securities market in the U.S. Applying these criteria, NTT expects that it should be treated as a qualified foreign corporation with respect to dividend payments to its ADS holders and, therefore, dividends paid to an individual U.S. holder of ADSs should be taxed at a maximum rate of 20%. A U.S. holder that is a corporation will not be eligible for the dividends-received deduction. Distributions to U.S. holders of additional Shares or preemptive rights with respect to Shares that are made as part of a pro rata distribution to all shareholders of NTT generally will not be subject to United States federal income tax. However, such distributions of additional Shares or preemptive rights generally will be subject to federal income tax if, for example, a U.S. holder can elect to receive cash in lieu of Shares or preemptive rights or if the distribution of Shares or preemptive rights is not proportionate.

Japanese withholding tax paid by or for the account of any U.S. holder may be used, subject to generally applicable limitations and conditions, as a credit against the U.S. holder’s U.S. federal income tax liability or as a

deduction in computing the U.S. holder's gross income. To the extent a refund of the tax withheld is available to you under Japanese law or under the Convention, the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability. Dividends generally will be foreign source income and, for purposes of determining a U.S. person's foreign tax credit limitation, will, depending on your circumstances, be "passive" or "general" income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you. In the case of a U.S. non-corporate holder for whom the reduced 20% rate of U.S. tax on dividends applies, limitations and restrictions on claiming foreign tax credits will appropriately take into account the rate differential under rules similar to section 904(b)(2)(B) of the United States Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder.

A non-U.S. holder generally will not be subject to United States federal income or withholding tax on dividends paid with respect to Shares or Shares represented by ADSs, unless that income is effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States (and is attributable to a permanent establishment maintained in the United States by such non-U.S. holder, if an applicable income tax treaty so requires).

U.S. holders generally will recognize capital gain or loss on the sale or other disposition of ADSs or Shares (or preemptive rights with respect to such Shares) held by the U.S. holder or by the Depository. Generally, gain or loss will be a long-term capital gain or loss if the U.S. holder's holding period for such Shares or Shares represented by ADSs exceeds one year. Long-term capital gain for an individual U.S. holder is generally subject to a reduced rate of tax, currently at a maximum rate of 20%. U.S. holders will not recognize gain or loss on deposits or withdrawals of Shares in exchange for ADSs or on the exercise of preemptive rights. Gain recognized by a U.S. holder generally will be treated as United States source income. Consequently, in the case of a disposition of Shares or ADSs, the U.S. holder may not be able to use the foreign tax credit for any Japanese tax imposed on the gain unless it can apply the credit against U.S. federal income tax due on other income from foreign sources. Loss recognized by a U.S. holder generally will be treated as United States source loss. A U.S. holder may, however, be required to treat all or any part of such loss as foreign source loss in certain circumstances, including if (i) NTT has paid certain dividends within the 24-month period preceding the loss and (ii) the U.S. holder included the dividends in the "general" basket for foreign tax credit limitation purposes. If such a loss were treated as foreign source for foreign tax credit purposes, the amount of the U.S. holder's allowable foreign tax credit may be reduced.

A non-U.S. holder of ADSs or Shares will not be subject to United States federal income or withholding tax on gain from the sale or other disposition of ADSs or Shares unless (i) such gain is effectively connected with the conduct of a trade or business within the United States (and is attributable to a permanent establishment maintained in the United States by such non-U.S. holder, if an applicable income tax treaty so requires) or (ii) the non-U.S. holder is an individual who is present in the United States for at least 183 days during the taxable year of the disposition and certain other conditions are met.

Dividends in respect of the ADSs or Shares and the proceeds from the sale, exchange, or redemption of the ADSs or Shares may be reported to the United States Internal Revenue Service if paid to non-corporate holders. A backup withholding tax also may apply to amounts paid to non-corporate holders unless they provide an accurate taxpayer identification number, a properly executed United States Internal Revenue Service Form W-8 or W-9 or otherwise establish a basis for exemption. The amount of any backup withholding from a payment to a holder will be allowed as a credit against the holder's United States federal income tax liability. Certain U.S. holders are required to report information with respect to their investment in certain "foreign financial assets," which would include an investment in equity issued by NTT, to the United States Internal Revenue Service, subject to certain exceptions. Investors who fail to report required information could become subject to substantial penalties. Investors are encouraged to consult with their own tax advisors regarding the possible implications of this reporting requirement on their investment in NTT's ADSs or Shares.

Documents on Display

NTT is subject to the informational requirements of the Exchange Act. In accordance with these requirements, NTT files annual reports and submits other information to the SEC. These materials, including this Form 20-F and the exhibits thereto, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. The SEC also maintains a website at <http://www.sec.gov/> that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC. Form 20-F reports and the other information submitted by NTT to the SEC may be accessed through this website.

ITEM 11—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures about Market Risk

The financial instruments that NTT Group holds are continuously exposed to market fluctuations, such as changes in foreign currency exchange rates, interest rates and stock prices.

NTT Group utilizes derivative financial instruments, such as forward exchange contracts, interest rate swap agreements, currency swap agreements, currency option agreements and forward contracts, from time to time, in order to limit its exposure to loss in relation to debt instruments or assets that may result from fluctuations, such as changes in foreign currency exchange rates and interest rates. NTT Group does not engage in derivative financial instrument transactions for trading purposes. The use of derivative financial instruments is based on specific internal rules and is subject to controls at the relevant department of the head offices of NTT and its subsidiaries. In most cases, derivative instrument transactions are integrated with the underlying debt instruments or financial assets, and the transactions are entered into on the same date as the debt instruments or financial assets and have the same maturity. See Note 22 to the Consolidated Financial Statements for additional information regarding NTT Group's derivative instruments and hedging activities.

Securities Price Risk

NTT Group holds available-for-sale securities and held-to-maturity securities. Available-for-sale securities are held as long-term investments. NTT Group does not hold marketable securities for trading purposes.

Fair values of available-for-sale securities and held-to-maturity securities were as follows as of March 31, 2017:

	2017	
	Cost	Fair value ⁽¹⁾
	(in millions of yen)	
Available-for-sale securities	¥236,904	¥431,892
Held-to-maturity securities	¥ 4,479	¥ 4,554

(1) Information provided for reference only.

Details of maturities and fair values of held-to-maturity securities were as follows:

	2017	
	Cost	Fair value ⁽¹⁾
	(in millions of yen)	
Maturing within 1 year	¥ 349	¥ 346
Maturing between 1 year and 5 years	¥ 623	¥ 630
Maturing between 5 years and 10 years	¥3,007	¥3,039
Maturing after 10 years	¥ 500	¥ 539

(1) Information provided for reference only.

Foreign Exchange Risk

NTT Group from time to time enters into forward exchange contracts and currency swap agreements to hedge the risk of fluctuations in foreign currency exchange rates associated with its foreign currency-denominated long-term debt. Such contracts and agreements are fixed at the same maturity as the underlying debt.

Of NTT Group's financial instruments as of March 31, 2017, certain forward exchange contracts were affected by foreign currency exchange rates, but the effect was immaterial.

Amounts related to forward exchange contracts and currency swap agreements entered into in connection with foreign currency-denominated long-term debt that eliminate all foreign currency exposures are shown in the table under "Interest Rate Risk."

Interest Rate Risk

Market risk for changes in interest rates to which NTT Group is exposed relates principally to debt obligations. NTT Group has long-term debt, primarily with fixed rates. NTT Group enters into interest rate swap agreements from time to time to convert underlying floating rate debt or assets into fixed rate debt or assets, or vice versa. NTT Group may also enter into interest rate option contracts to hedge the risk of a rise in the interest rate of underlying debt.

The following tables provide information about NTT Group's financial instruments that are affected by changes in interest rates, including debt obligations and interest rate swaps.

For debt obligations, the table presents cash flows by expected maturity dates, weighted average interest rates and fair values of financial instruments.

For interest rate swaps, the table presents notional amounts and weighted average interest rates by expected maturity dates and the fair value of the swap. Notional amounts are calculated based on the contractual payments. Weighted average floating rates are current as of March 31, 2017.

While the information is presented in Japanese yen equivalents, the amounts are classified by the currency (Japanese yen and foreign currencies) of the financial instruments' actual cash flows.

	Average interest rate	Carrying amount and maturity date (year ending March 31)						Fair value	
		2018	2019	2020	2021	2022	Thereafter		Total
(in millions of yen)									
Long-term debt including current portion									
Japanese yen bonds	1.17%	¥(284,990)	¥(200,999)	¥(219,973)	¥(179,963)	¥(100,091)	¥ (279,947)	¥(1,265,963)	¥(1,309,546)
U.S. dollar bonds	1.71%	(140,225)	(22,438)	(56,079)	(5,610)	(84,024)	—	(308,376)	(304,430)
Borrowings from banks—									
Fixed rate:									
Japanese yen									
loans	0.87%	(162,203)	(334,745)	(164,831)	(148,667)	(178,244)	(760,574)	(1,749,264)	(1,839,061)
Euro loans	1.30%	(411)	(164)	(325)	(239)	(243)	(14,196)	(15,578)	(15,595)
Floating rate:									
Japanese yen									
loans	0.18%	(12,418)	(5,646)	(3,004)	(726)	(20,516)	(39,600)	(81,910)	(82,325)
U.S. dollar loans . . .	1.59%	(66,164)	(43,007)	(16,510)	(96,869)	(11,100)	(115,994)	(349,644)	(324,621)
Other loans (primarily floating rate):		(15,493)	(18,068)	(4,953)	(12,683)	(1,299)	(27,151)	(79,647)	(78,054)
Subtotal		(681,904)	(625,067)	(465,675)	(444,757)	(395,517)	(1,237,462)	(3,850,382)	(3,953,632)
Forward exchange contracts		0	0	0	0	0	0	0	0
Currency swap agreements		40,596	0	8,318	(345)	4,127	(9,847)	42,849	42,849
Total		¥(641,308)	¥(625,067)	¥(457,357)	¥(445,102)	¥(391,390)	¥(1,247,309)	¥(3,807,533)	¥(3,910,783)

	Notional amount and average interest rate (year ending March 31)						Fair value			
	2018	2019	2020	2021	2022	Thereafter				
(in millions of yen)										
Interest rate swap agreements										
Floating to Fixed (Japanese yen)		¥35,052	¥19,551	¥3,393	¥15,251	¥27,652	¥85,024	¥(3,594)		
Average pay rate		0.5%	1.3%	1.8%	2.4%	1.3%	1.7%			
Average receive rate		0.2%	0.8%	1.1%	1.6%	0.5%	0.7%			
Fixed to Floating (Japanese yen)	¥	0	¥	0	¥	5,610	¥	0	¥ (56)	
Average pay rate		0.0%	0.0%	0.0%	1.44%	0.0%	0.0%			
Average receive rate		0.0%	0.0%	0.0%	2.07%	0.0%	0.0%			
Floating to Floating (Japanese yen)	¥	0	¥	0	¥	0	¥	0	¥	0
Average pay rate		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			
Average receive rate		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			

ITEM 12—DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

American Depositary Shares

Prior to the issue, registration, registration of transfer, split-up or combination of any ADR, the delivery of any distribution in respect thereof, or the withdrawal of any deposited securities, the Depositary may charge holders of ADRs the following fees, if applicable:

- any stock transfer or other tax or other governmental charge;
- any stock transfer or registration fees in effect for the registration of transfers of the Shares or the deposited securities upon any applicable register; and
- any other applicable charges as set forth below.

The Depositary may, however, deduct from any distributions on or in respect of the deposited securities, or may sell such deposited securities (after giving notice to the holder thereof), and apply such deduction or the proceeds of any such sale in payment of such tax or other governmental charge described above.

The Depositary may charge each person to whom ADRs are issued against deposits of Shares (including deposits in respect of Share distributions, stock acquisition rights or other distributions) and each person surrendering ADRs for withdrawal of deposited securities the following charges: (i) up to US\$5.00 for each 100 ADSs (or portion thereof), (ii) cable, telex and facsimile transmission and delivery charges, and (iii) expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars. Effective as of April 3, 2017, NTT revised the handling procedures of its ADRs to temporarily suspend the collection fees from ADR holders who surrender their ADRs for cancellation during the period from April 3, 2017 to March 30, 2018.

In the case of any cash dividends or other distributions in cash (including as a result of any sales of ADRs or Shares, or the sale of fractions thereof when the same results from a distribution of securities), the Depositary will make adjustments for taxes withheld and will deduct its expenses for (i) converting any foreign currency to U.S. dollars, (ii) transferring foreign currency or U.S. dollars to the United States, (iii) obtaining any approval or license of any governmental authority required for such conversion or transfer, (iv) making any sale, and (v) following procedures relating to foreign ownership restrictions. See “Item 10—Additional Information—Exchange Controls and Other Limitations Affecting Security Holders—Restrictions on Foreign Ownership” for further details regarding such restrictions. In addition, pursuant to the terms of the Deposit Agreement, the Depositary may collect a fee of up to US\$0.05 per ADR for any cash distribution made pursuant to the Deposit Agreement and an administrative fee of up to US\$0.05 per ADR per calendar year, which the Depositary may elect to receive by deducting such charges from cash distributions payable to ADR holders. Effective as of February 23, 2017, NTT revised the handling procedures of its ADRs such that the Depositary may collect US\$0.02 per ADR on each of two cash dividends per calendar year for all dividends declared on or after March 29, 2017, up to a maximum aggregate fee of US\$0.04 per ADS per calendar year including the administrative fee.

The Depositary has agreed to reimburse NTT for its annual NYSE listing fees (which will no longer apply following NTT’s voluntary delisting from the NYSE on April 3, 2017) and to waive certain costs related to the Depositary’s administration and maintenance of the ADR program, including the routine expenses of the Depositary for printing and distributing dividend checks and mailing required tax forms, its fees and expenses (including legal fees) in connection with non-routine costs, including costs associated with any rights issues, splits or combinations, recapitalizations, mergers, acquisitions, exchange offers, stock distributions, consent solicitations, change in the ratio of ADSs to Shares and other similar costs, and the subscription fees to certain websites maintained by the Depositary. For the fiscal year ended March 31, 2017, the Depositary reimbursed NTT in the amount of US\$59,500 for NTT’s annual NYSE listing fees, and waived costs related to the administration and maintenance of the ADR program and other services as described above. The amount reimbursed by the Depositary is not related to the amount of fees collected by the Depositary from ADR holders.

PART II

ITEM 13—DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14—MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Effective February 23, 2017, NTT agreed upon a Form of Amendment No. 3 to the Deposit Agreement with JPMorgan Chase Bank, N.A., as depositary (“JPMorgan”), and on April 3, 2017, in connection with its voluntary delisting from the NYSE, NTT entered into an Amended and Restated Deposit Agreement with JPMorgan. The following is a summary of the general effect of the modifications of certain of the rights of the holders of ADRs, ADSs or interests therein. The summary is qualified in its entirety by reference to the Form of Amended and Restated Deposit Agreement filed as Exhibit (a) to NTT’s Post-Effective Amendment No. 4 to Form F-6 filed on April 3, 2017 (File No. 333-132794).

Pursuant to the terms of the Amended and Restated Deposit Agreement, the Depositary may collect, among other fees, a fee of up to US\$0.05 per ADR for any cash distribution made pursuant to the Deposit Agreement and an administrative fee of up to US\$0.05 per ADR per calendar year, which the Depositary may in each case elect to receive by deducting such charges from cash distributions payable to ADR holders. For additional details regarding the charges of the Depositary, see “Item 12—Description of Securities Other Than Equity Securities—American Depositary Shares.”

ITEM 15—CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

NTT Group maintains disclosure controls and procedures that are designed to ensure that the information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applies its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management’s control objectives. NTT Group also has investments in certain unconsolidated entities, both in Japan and in various foreign countries. As NTT Group does not control or manage these entities, the disclosure controls and procedures with respect to such entities are necessarily more limited than those that NTT Group maintains with respect to its consolidated subsidiaries.

NTT’s Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of NTT Group’s disclosure controls and procedures as of March 31, 2017. Based on that evaluation, under the supervision and with the participation of NTT’s management, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of March 31, 2017 to provide reasonable assurance that the information required to be disclosed in the reports NTT files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

Management’s Annual Report on Internal Control over Financial Reporting

The management of NTT is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act. NTT’s internal control over financial reporting is a process designed to provide reasonable assurance as to the reliability of financial reporting and the preparation and presentation of the consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

NTT's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of NTT's assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that NTT's receipts and expenditures are being made only in accordance with authorizations of management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of NTT's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness for future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with these policies or procedures may deteriorate.

Management assessed the effectiveness of its internal control over financial reporting as of March 31, 2017. In making this assessment, NTT's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Control-Integrated Framework (2013)." Management concluded that, as of March 31, 2017, NTT's internal control over financial reporting is effective based on those criteria.

NTT's independent registered public accounting firm, KPMG AZSA LLC, has issued an audit report on NTT's internal control over financial reporting as of March 31, 2017, which appears on Page F-3.

Changes in Internal Control over Financial Reporting

There has been no change in NTT's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, NTT's internal control over financial reporting.

ITEM 16A—AUDIT COMMITTEE FINANCIAL EXPERT

NTT's Audit & Supervisory Board has determined that Mr. Takao Maezawa and Ms. Michiko Tomonaga are financial experts meeting the requirements of Item 16A. Ms. Michiko Tomonaga is independent under applicable Japanese rules relating to the composition of boards of corporate auditors, in compliance with the independence requirements applicable to foreign private issuers set forth under the NYSE Listed Company Manual and in Rule 10A-3 of the Exchange Act.

ITEM 16B—CODE OF ETHICS

NTT Group has adopted a code of ethics covering all of its officers, including its principal executive officer and principal financial officer, and all of its employees. NTT Group has posted the text of its code of ethics on its Internet website: http://www.ntt.co.jp/csr_e/governance/compliance.html.

If NTT Group amends the provisions of its code of ethics that apply to its chief executive officer, principal financial officer or persons performing similar functions, or if NTT Group grants any waiver of such provisions, NTT Group will disclose such amendment or waiver on its website at the same address.

ITEM 16C—PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees, Audit-Related Fees, Tax Fees and All Other Fees

NTT believes that it is important to maintain and enhance audit quality while increasing audit efficiency. NTT's principal auditor is KPMG AZSA LLC ("KPMG"), formerly known as KPMG AZSA & Co.

The aggregate fees billed for each of the fiscal years ended March 31, 2016 and March 31, 2017 for professional services rendered to NTT and its subsidiaries by KPMG and its affiliates are as follows:

	Years ended March 31,	
	2016	2017
	(in millions of yen)	
Audit Fees	¥4,812	¥5,004
Audit-Related Fees	20	50
Tax Fees	88	81
All Other Fees	340	436
Total Fees	<u>¥5,259</u>	<u>¥5,571</u>

Audit Fees were billed for professional services rendered by KPMG for the audit of NTT's and its subsidiaries' annual financial statements and for services that KPMG normally provides in connection with statutory and regulatory filings or engagements for those fiscal years.

Audit-Related Fees were billed for assurance and related services rendered by KPMG that are reasonably related to the performance of the audit or review of NTT's and its subsidiaries' financial statements, such as services involving the performance of agreed-upon procedures, and that are not reported under Audit Fees.

Tax Fees were billed for professional services rendered by KPMG for tax returns and tax consultation services.

All Other Fees were billed for services provided by KPMG, such as an information systems review and other advisory operations, which are not reported in Audit Fees, Audit-Related Fees or Tax Fees.

Pre-approval Policies and Procedures Approved by the Audit & Supervisory Board

Any contract between NTT and/or its subsidiaries and KPMG and its affiliates must be approved by NTT's Audit & Supervisory Board before the engagement of the relevant accountants. NTT's Audit & Supervisory Board has pre-approved NTT and/or its subsidiaries entering into contracts with KPMG and its affiliates for services consisting of the preparation of tax returns and interfacing with the tax authorities in relation thereto, and NTT's Audit & Supervisory Board is to be informed of each such service provided.

All of the services provided by KPMG and its affiliates in the fiscal year ended March 31, 2016 were approved by NTT's Audit & Supervisory Board pursuant to the pre-approval policies and procedures described above. None of the pre-approvals for such services were waived pursuant to the procedures described in Rule 2-01(c)(7)(i)(C) of Regulation S-X, which waives the general requirement for pre-approval with respect to the provision of services other than audit, review or attest services in certain circumstances.

ITEM 16D—EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

NTT is relying on the general exemption from certain requirements of Rule 10A-3 under the Exchange Act related to the independence of audit committee members and the responsibilities of the audit committee, which exemption is available to non-U.S. issuers that maintain a qualifying board of corporate auditors as provided in Rule 10A-3(c)(3). NTT believes that reliance on this exemption does not materially adversely affect the ability of NTT's board of corporate auditors to satisfy the other requirements of Rule 10A-3. See "Item 6—Directors, Senior Management and Employees" for a discussion of NTT's board of corporate auditors.

ITEM 16E—PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased⁽¹⁾⁽²⁾⁽³⁾	(b) Average Price Paid per Share⁽¹⁾⁽²⁾	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs⁽¹⁾⁽²⁾	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs⁽¹⁾⁽²⁾
April 1, 2016 to April 30, 2016	2,142	¥4,807	0	0
May 1, 2016 to May 31, 2016	1,943	¥4,921	0	68,000,000
June 1, 2016 to June 30, 2016	59,039,705	¥4,529	59,038,100	8,961,900
July 1, 2016 to July 31, 2016	4,454	¥4,949	0	0
August 1, 2016 to August 31, 2016	4,374	¥4,835	0	0
September 1, 2016 to September 30, 2016	2,971	¥4,633	0	0
October 1, 2016 to October 31, 2016	2,577	¥4,669	0	0
November 1, 2016 to November 30, 2016	2,353	¥4,474	0	0
December 1, 2016 to December 31, 2016	2,126,047	¥4,924	2,120,700	30,879,300
January 1, 2017 to January 31, 2017	7,867,630	¥5,032	7,861,900	23,017,400
February 1, 2017 to February 28, 2017	4,113,721	¥4,767	4,109,300	18,908,100
March 1, 2017 to March 31, 2017	7,605,429	¥4,890	7,601,900	11,306,200

- (1) On May 13, 2016, the Board resolved that NTT may acquire up to 68 million outstanding Shares of its common stock at an aggregate cost not exceeding ¥350 billion from May 16, 2016 through March 31, 2017.
- (2) On December 12, 2016, the Board resolved that NTT may acquire up to 33 million outstanding Shares of its common stock at an aggregate cost not exceeding ¥150 billion from December 13, 2016 through June 30, 2017.
- (3) The number of Shares purchased includes less-than-one-unit shares. From April 1, 2016 to March 31, 2017, NTT purchased 41,446 such Shares.

ITEM 16F—CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G—CORPORATE GOVERNANCE

Not applicable.

ITEM 16H—MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17—FINANCIAL STATEMENTS

Not applicable.

ITEM 18—FINANCIAL STATEMENTS

The Reports of Independent Registered Public Accounting Firm, Consolidated Balance Sheets of NTT at March 31, 2016 and 2017, Consolidated Statements of Income, Consolidated Statements of Changes in Equity and Comprehensive Income and Consolidated Statements of Cash Flows of NTT for each of the three fiscal years ended March 31, 2015, 2016 and 2017, the Notes to the Consolidated Financial Statements, and Schedule II—Valuation and Qualifying Accounts appear as pages F-1 through F-81.

ITEM 19—EXHIBITS

(a) Financial Statements

See accompanying index to the Consolidated Financial Statements.

(b) Exhibits

Exhibit Number	Description
1.1	Amended Articles of Incorporation of NTT (English translation thereof) (incorporated by reference to NTT's Form 20-F filed June 30, 2015)
1.2	Amended Share Handling Regulations of NTT (English translation thereof) (incorporated by reference to NTT's Form 20-F filed June 29, 2012)
1.3	Amended Regulations of Board of Directors (English translation thereof) (incorporated by reference to NTT's Form 20-F filed June 30, 2015)
8.1	List of Subsidiaries
12.1	Chief Executive Officer's Certification Pursuant to Rule 13a-14(a) under the U.S. Securities Exchange Act of 1934
12.2	Chief Financial Officer's Certification Pursuant to Rule 13a-14(a) under the U.S. Securities Exchange Act of 1934
13.1*	Chief Executive Officer's Certification Pursuant to Rule 13a-14(b) under the U.S. Securities Exchange Act of 1934 and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
13.2*	Chief Financial Officer's Certification Pursuant to Rule 13a-14(b) under the U.S. Securities Exchange Act of 1934 and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Deemed to be furnished to the SEC.

NTT agrees to furnish to the SEC upon request a copy of any instrument which defines the rights of holders of long-term debt of NTT and its consolidated subsidiaries.

All trademarks are the property of their respective owners.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

NIPPON TELEGRAPH AND TELEPHONE CORPORATION

By: _____ /s/ HIROO UNOURA

**Hiroo Unoura
President
Chief Executive Officer**

Date: June 28, 2017

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND SUBSIDIARIES**

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Nippon Telegraph and Telephone Corporation:

We have audited the consolidated financial statements of Nippon Telegraph and Telephone Corporation and subsidiaries, as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nippon Telegraph and Telephone Corporation and subsidiaries as of March 31, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2017, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of computing depreciation and revised the estimate of certain residual carrying amounts of property, plant and equipment, effective April 1, 2016.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Nippon Telegraph and Telephone Corporation's internal control over financial reporting as of March 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 28, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG AZSA LLC

Tokyo, Japan
June 28, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Nippon Telegraph and Telephone Corporation:

We have audited Nippon Telegraph and Telephone Corporation's internal control over financial reporting as of March 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Nippon Telegraph and Telephone Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's annual report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Nippon Telegraph and Telephone Corporation maintained, in all material respects, effective internal control over financial reporting as of March 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Nippon Telegraph and Telephone Corporation and subsidiaries as of March 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended March 31, 2017, and our report dated June 28, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG AZSA LLC

Tokyo, Japan
June 28, 2017

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

MARCH 31

	2016	2017
	Millions of yen	
ASSETS		
Current assets (Note 2):		
Cash and cash equivalents (Note 5)	¥ 1,088,275	¥ 925,213
Short-term investments	33,076	63,844
Notes and accounts receivable, trade (Notes 3 and 22)	2,733,116	2,699,708
Allowance for doubtful accounts (Note 23)	(45,236)	(48,626)
Accounts receivable, other	473,192	505,145
Inventories (Note 6)	414,581	365,379
Prepaid expenses and other current assets (Note 22)	469,529	573,170
Deferred income taxes (Note 13)	260,446	228,590
Total current assets	5,426,979	5,312,423
Property, plant and equipment (Notes 2 and 19):		
Telecommunications equipment	11,586,812	11,046,115
Telecommunications service lines	15,870,097	16,064,732
Buildings and structures	6,069,437	6,147,869
Machinery, vessels and tools	1,996,898	2,032,389
Land	1,273,209	1,292,685
Construction in progress	382,196	421,819
	37,178,649	37,005,609
Accumulated depreciation	(27,626,728)	(27,286,588)
Net property, plant and equipment	9,551,921	9,719,021
Investments and other assets (Note 2):		
Investments in affiliated companies (Note 8)	515,716	484,596
Marketable securities and other investments (Note 9)	474,247	495,290
Goodwill (Note 10)	1,229,208	1,314,645
Software (Note 10)	1,212,482	1,209,485
Other intangible assets (Note 10)	391,977	453,918
Other assets (Notes 12 and 22)	1,486,840	1,492,076
Deferred income taxes (Note 13)	746,561	768,871
Total investments and other assets	6,057,031	6,218,881
Total assets	¥ 21,035,931	¥ 21,250,325

The accompanying notes are an integral part of these consolidated financial statements.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
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CONSOLIDATED BALANCE SHEETS—(Continued)

MARCH 31

	2016	2017
	Millions of yen	
LIABILITIES AND EQUITY		
Current liabilities (Note 2):		
Short-term borrowings (Note 11)	¥ 129,656	¥ 227,207
Current portion of long-term debt (Notes 11 and 22)	476,777	681,904
Accounts payable, trade (Note 3)	1,572,797	1,612,996
Current portion of obligations under capital leases (Note 19)	14,711	14,430
Accrued payroll	430,248	443,308
Accrued taxes on income	249,356	239,755
Accrued consumption tax	83,481	75,083
Advances received	290,132	324,342
Other (Notes 13 and 22)	493,970	512,368
Total current liabilities	3,741,128	4,131,393
Long-term liabilities (Note 2):		
Long-term debt (excluding current portion) (Notes 11 and 22)	3,546,203	3,168,478
Obligations under capital leases (excluding current portion) (Note 19)	27,630	25,568
Liability for employees' retirement benefits (Note 12)	1,688,611	1,599,381
Accrued liabilities for point programs	89,003	103,047
Deferred income taxes (Note 13)	166,547	166,751
Other (Note 22)	491,630	497,132
Total long-term liabilities	6,009,624	5,560,357
Redeemable noncontrolling interests (Notes 2 and 15):	45,097	50,819
Equity (Note 16):		
Nippon Telegraph and Telephone Corporation ("NTT") shareholders' equity		
Common stock, no par value—		
Authorized—6,192,920,900 shares		
Issued—2,096,394,470 shares in 2016 and 2017	937,950	937,950
Additional paid-in capital (Note 16)	2,879,560	2,862,035
Retained earnings (Notes 8 and 16)	5,074,234	5,626,155
Accumulated other comprehensive income (loss) (Notes 9, 12, 16 and 22)	(57,055)	1,562
Treasury stock, at cost (Note 16)—		
255,269 shares in 2016 and		
81,026,959 shares in 2017	(883)	(375,223)
Total NTT shareholders' equity	8,833,806	9,052,479
Noncontrolling interests	2,406,276	2,455,277
Total equity	11,240,082	11,507,756
Commitments and contingent liabilities (Note 24):		
Total liabilities and equity	¥ 21,035,931	¥ 21,250,325

The accompanying notes are an integral part of these consolidated financial statements.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF INCOME

YEAR ENDED MARCH 31

	2015	2016	2017
	Millions of yen, except per share data		
Operating revenues (Notes 3 and 18):			
Fixed voice related services	¥ 1,441,383	¥ 1,329,963	¥ 1,233,885
Mobile voice related services	872,062	837,818	865,293
IP / packet communications services	3,672,157	3,757,846	3,808,972
Sale of telecommunication equipment	996,996	953,022	806,493
System integration	2,691,766	3,063,501	3,041,587
Other	1,420,953	1,598,847	1,634,786
	<u>11,095,317</u>	<u>11,540,997</u>	<u>11,391,016</u>
Operating expenses (Notes 3, 18 and 20):			
Cost of services (excluding items shown separately below)	2,434,870	2,458,057	2,487,588
Cost of equipment sold (Note 2) (excluding items shown separately below)	948,903	970,478	879,725
Cost of system integration (excluding items shown separately below)	1,900,319	2,197,506	2,161,007
Depreciation and amortization (Notes 2, 10 and 18)	1,827,998	1,766,325	1,462,235
Impairment losses			
Goodwill (Notes 2, 10 and 18)	3,464	4,719	53,294
Other (Notes 2, 7, 10 and 18)	38,739	28,002	20,558
Selling, general and administrative expenses (Note 20)	2,856,458	2,767,761	2,786,820
	<u>10,010,751</u>	<u>10,192,848</u>	<u>9,851,227</u>
Operating income (Note 18)	<u>1,084,566</u>	<u>1,348,149</u>	<u>1,539,789</u>
Other income (expenses):			
Interest and amortization of bond discounts and issue costs (Note 2)	(44,016)	(41,670)	(37,761)
Interest income	18,398	17,708	17,753
Other, net (Notes 9, 21 and 22)	7,681	5,072	7,988
	<u>(17,937)</u>	<u>(18,890)</u>	<u>(12,020)</u>
Income before income taxes and equity in earnings (losses) of affiliated companies	<u>1,066,629</u>	<u>1,329,259</u>	<u>1,527,769</u>
Income tax expense (benefit) (Note 13):			
Current	364,845	457,674	472,711
Deferred	32,504	(102,849)	(4,341)
	<u>397,349</u>	<u>354,825</u>	<u>468,370</u>
Income before equity in earnings (losses) of affiliated companies	<u>669,280</u>	<u>974,434</u>	<u>1,059,399</u>
Equity in earnings (losses) of affiliated companies (Notes 8 and 18)	5,889	5,772	(21)
Net income	<u>675,169</u>	<u>980,206</u>	<u>1,059,378</u>
Less—Net income attributable to noncontrolling interests	157,103	242,468	259,249
Net income attributable to NTT	<u>¥ 518,066</u>	<u>¥ 737,738</u>	<u>¥ 800,129</u>
Per share of common stock* (Note 16):			
Weighted average number of shares outstanding	2,187,360,018	2,105,782,828	2,046,678,144
Net income attributable to NTT	¥ 236.85	¥ 350.34	¥ 390.94
Cash dividends to be paid to shareholders of record date	¥ 90.00	¥ 110.00	¥ 120.00

* “Per share of common stock” figures for the fiscal years ended March 31, 2015 and 2016 have been adjusted to reflect the two-for-one stock split carried out on July 1, 2015. See Note 16 (“Equity”) for additional information.

The accompanying notes are an integral part of these consolidated financial statements.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEAR ENDED MARCH 31

	<u>2015</u>	<u>2016</u>	<u>2017</u>
	Millions of yen		
Net income	¥ 675,169	¥ 980,206	¥ 1,059,378
Other comprehensive income (loss), net of tax (Note 16)			
Unrealized gain (loss) on securities	76,308	(32,960)	12,308
Unrealized gain (loss) on derivative instruments	2,903	(4,079)	495
Foreign currency translation adjustments	129,863	(115,599)	(24,657)
Pension liability adjustments	16,370	(208,644)	91,034
Total other comprehensive income (loss)	<u>225,444</u>	<u>(361,282)</u>	<u>79,180</u>
Total comprehensive income (loss)	<u>900,613</u>	<u>618,924</u>	<u>1,138,558</u>
Less—Comprehensive income attributable to noncontrolling interests	<u>209,281</u>	<u>196,771</u>	<u>278,358</u>
Total comprehensive income (loss) attributable to NTT	<u>¥ 691,332</u>	<u>¥ 422,153</u>	<u>¥ 860,200</u>

The accompanying notes are an integral part of these consolidated financial statements.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED MARCH 31, 2015

	NTT shareholders' equity					Total	Noncontrolling interests	Total Equity (Note 16)
	Common stock	Additional paid-in capital (Note 16)	Retained earnings (Notes 8 and 16)	Accumulated other comprehensive income (loss) (Notes 9, 12, 16 and 22)	Treasury stock, at cost (Note 16)			
	Millions of yen							
At beginning of year	¥937,950	¥2,827,010	¥4,808,361	¥ 94,966	¥(156,933)	¥8,511,354	¥2,413,452	¥10,924,806
Net income			518,066			518,066	156,013	674,079
Other comprehensive income (loss)				173,266		173,266	50,943	224,209
Cash dividends			(199,770)			(199,770)	(96,100)	(295,870)
Changes in NTT's ownership interest in subsidiaries		17,421				17,421	(156,358)	(138,937)
Stock compensation transactions		2,292				2,292		2,292
Acquisition of treasury stock					(340,781)	(340,781)		(340,781)
Resale of treasury stock					12	12		12
At end of year	¥937,950	¥2,846,723	¥5,126,657	¥268,232	¥(497,702)	¥8,681,860	¥2,367,950	¥11,049,810

* Changes in the redeemable noncontrolling interest are not included in the table.

The accompanying notes are an integral part of these consolidated financial statements.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED MARCH 31, 2016

	NTT shareholders' equity					Total	Noncontrolling interests	Total Equity (Note 16)
	Common stock	Additional paid-in capital (Note 16)	Retained earnings (Notes 8 and 16)	Accumulated other comprehensive income (loss) (Notes 9, 12, 16 and 22)	Treasury stock, at cost (Note 16)			
	Millions of yen							
At beginning of year	¥937,950	¥2,846,723	¥5,126,657	¥ 268,232	¥(497,702)	¥8,681,860	¥2,367,950	¥11,049,810
Adjustments due to change in fiscal year end of consolidated subsidiaries (Note 2)			700	(9,702)		(9,002)	(595)	(9,597)
At beginning of year (as adjusted)	937,950	2,846,723	5,127,357	258,530	(497,702)	8,672,858	2,367,355	11,040,213
Net income			737,738			737,738	241,075	978,813
Other comprehensive income (loss)				(315,585)		(315,585)	(44,749)	(360,334)
Cash dividends			(200,182)			(200,182)	(105,568)	(305,750)
Changes in NTT's ownership interest in subsidiaries		28,666				28,666	(51,837)	(23,171)
Stock compensation transactions		4,171				4,171		4,171
Acquisition of treasury stock					(93,886)	(93,886)		(93,886)
Resale of treasury stock		8			18	26		26
Cancellation of treasury stock		(8)	(590,679)		590,687	—		—
At end of year	¥937,950	¥2,879,560	¥5,074,234	¥ (57,055)	¥ (883)	¥8,833,806	¥2,406,276	¥11,240,082

* Changes in the redeemable noncontrolling interest are not included in the table.

The accompanying notes are an integral part of these consolidated financial statements.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED MARCH 31, 2017

	NTT shareholders' equity					Total	Noncontrolling interests	Total Equity (Note 16)
	Common stock	Additional paid-in capital (Note 16)	Retained earnings (Notes 8 and 16)	Accumulated other comprehensive income (loss) (Notes 9, 12, 16 and 22)	Treasury stock, at cost (Note 16)			
	Millions of yen							
At beginning of year	¥937,950	¥2,879,560	¥5,074,234	¥(57,055)	¥ (883)	¥8,833,806	¥2,406,276	¥11,240,082
Adjustments due to change in fiscal year end of consolidated subsidiaries (Note 2)			(214)	(1,454)		(1,668)	(1,408)	(3,076)
At beginning of year (as adjusted)	937,950	2,879,560	5,074,020	(58,509)	(883)	8,832,138	2,404,868	11,237,006
Net income			800,129			800,129	257,593	1,057,722
Other comprehensive income (loss)				60,071		60,071	20,389	80,460
Cash dividends			(247,994)			(247,994)	(113,167)	(361,161)
Changes in NTT's ownership interest in subsidiaries		(18,700)				(18,700)	(114,406)	(133,106)
Stock compensation transactions		1,175				1,175		1,175
Acquisition of treasury stock					(374,348)	(374,348)		(374,348)
Resale of treasury stock					8	8		8
At end of year	¥937,950	¥2,862,035	¥5,626,155	¥ 1,562	¥(375,223)	¥9,052,479	¥2,455,277	¥11,507,756

* Changes in the redeemable noncontrolling interest are not included in the table.

The accompanying notes are an integral part of these consolidated financial statements.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
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CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED MARCH 31

	2015	2016	2017
	Millions of yen		
Cash flows from operating activities:			
Net income	¥ 675,169	¥ 980,206	¥1,059,378
Adjustments to reconcile net income to net cash provided by operating activities—			
Depreciation and amortization (Notes 2, 10 and 18)	1,827,998	1,766,325	1,462,235
Impairment losses (Notes 7, 10 and 18)	42,203	32,721	73,852
Deferred taxes (Note 13)	32,504	(102,849)	(4,341)
Losses on disposals of property, plant and equipment	104,718	107,474	105,790
Gains on sales of property, plant and equipment	(34,191)	(20,364)	(15,633)
Equity in (earnings) losses of affiliated companies (Note 8) ...	(5,889)	(5,772)	21
(Increase) decrease in notes and accounts receivable, trade	(126,476)	(72,575)	63,842
(Increase) decrease in inventories (Note 6)	(12,044)	(47,569)	(731)
(Increase) decrease in other current assets	(86,809)	(63,107)	(30,143)
Increase (decrease) in accounts payable, trade and accrued payroll	(21,538)	(34,539)	52,872
Increase (decrease) in accrued consumption tax	99,661	(64,596)	(7,258)
Increase (decrease) in advances received	(32,481)	46,191	36,925
Increase (decrease) in accrued taxes on income	(133,894)	124,905	(8,931)
Increase (decrease) in other current liabilities	60,141	8,198	8,934
Increase (decrease) in liability for employees' retirement benefits	38,753	49,360	7,133
Increase (decrease) in other long-term liabilities	2,588	(1,965)	41,785
Other	(38,601)	9,801	71,627
Net cash provided by operating activities	¥2,391,812	¥2,711,845	¥2,917,357

The accompanying notes are an integral part of these consolidated financial statements.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
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CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

YEAR ENDED MARCH 31

	<u>2015</u>	<u>2016</u>	<u>2017</u>
	Millions of yen		
Cash flows from investing activities:			
Payments for property, plant and equipment	¥(1,444,917)	¥(1,265,622)	¥(1,301,697)
Payments for intangibles	(358,209)	(371,924)	(400,110)
Proceeds from sales of property, plant and equipment	54,424	83,521	24,920
Payments for purchases of non-current investments	(31,097)	(56,641)	(40,344)
Proceeds from sales and redemptions of non-current investments	27,478	57,173	58,835
Acquisitions of subsidiaries, net of cash acquired (Note 25)	(42,217)	(120,596)	(329,005)
Payments for purchases of short-term investments	(61,364)	(26,521)	(178,939)
Proceeds from redemptions of short-term investments	70,644	23,095	146,132
Other	(83,321)	(82,263)	(69,103)
Net cash used in investing activities	<u>(1,868,579)</u>	<u>(1,759,778)</u>	<u>(2,089,311)</u>
Cash flows from financing activities:			
Proceeds from issuance of long-term debt (Note 11)	615,353	398,348	320,464
Payments for settlement of long-term debt (Note 11)	(496,729)	(449,025)	(485,612)
Proceeds from issuance of short-term debt (Note 11)	5,931,664	4,460,110	4,987,795
Payments for settlement of short-term debt (Note 11)	(5,889,243)	(4,659,686)	(4,897,024)
Dividends paid	(199,770)	(200,182)	(247,994)
Proceeds from sale of (payments for acquisition of) treasury stock, net (Note 16)	(338,399)	(93,924)	(374,436)
Acquisitions of shares of subsidiaries from noncontrolling interests	(175,088)	(15,718)	(155,905)
Other	(125,796)	(147,498)	(128,799)
Net cash used in financing activities	<u>(678,008)</u>	<u>(707,575)</u>	<u>(981,511)</u>
Effect of exchange rate changes on cash and cash equivalents . .	19,486	(7,419)	(6,959)
Net increase (decrease) in cash and cash equivalents	<u>(135,289)</u>	<u>237,073</u>	<u>(160,424)</u>
Cash and cash equivalents at beginning of year	984,463	849,174	1,088,275
Increase (decrease) in cash and cash equivalents due to change in fiscal year end of consolidated subsidiaries (Note 2)	—	2,028	(2,638)
Cash and cash equivalents at end of year (Note 5)	<u>¥ 849,174</u>	<u>¥ 1,088,275</u>	<u>¥ 925,213</u>
Cash paid during the year for:			
Interest	¥ 44,795	¥ 41,626	¥ 37,339
Income taxes, net	543,354	342,431	468,357
Noncash investing and financing activities:			
Capital lease obligations incurred during the year	20,987	11,099	16,809
Cancellation of treasury stock (Note 16)	—	590,687	—
Assets acquired through exchange of buildings	¥ 18,719	¥ —	¥ —

The accompanying notes are an integral part of these consolidated financial statements.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations:

Nippon Telegraph and Telephone Corporation (“NTT”) and its subsidiaries (collectively with NTT, “NTT Group”) conduct the following main business activities: regional communications (domestic intra-prefectural communication services and incidental services), principally operated by Nippon Telegraph and Telephone East Corporation (“NTT East”) and Nippon Telegraph and Telephone West Corporation (“NTT West”); long-distance and international communications (domestic inter-prefectural communication services, international communication services, solution services and related services), principally operated by NTT Communications Corporation (“NTT Communications”); mobile communications (mobile phone services and related services), principally operated by NTT DOCOMO, Inc. (“NTT DOCOMO”); and data communications (network system services, system integration services, etc.), principally operated by NTT DATA CORPORATION (“NTT DATA”).

Pursuant to the Act on Nippon Telegraph and Telephone Corporation, etc. (“NTT Act”), NTT was incorporated on April 1, 1985, upon which all the assets and liabilities of Nippon Telegraph and Telephone Public Corporation (“Public Corporation”) were transferred to NTT. As provided for in the supplementary provisions of the NTT Act, all the new shares held by Public Corporation were transferred to the Japanese Government upon the dissolution of Public Corporation on April 1, 1985. The NTT Act specifies, however, that such government ownership may eventually be reduced to one-third. Since NTT’s incorporation, the Japanese Government has sold NTT’s common stock to the public. The Japanese Government’s ownership ratio of NTT’s issued stock is 32.4% as of March 31, 2017. As a normal part of its business operations, NTT provides various telecommunications and other services to the Japanese Government.

2. Summary of significant accounting policies:

The accompanying consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States of America.

Significant accounting policies are as follows:

(1) Principal Accounting Policies

Basis of consolidation and accounting for investments in affiliated companies—

The consolidated financial statements include the accounts of NTT, its subsidiaries, and variable interest entities (“VIEs”). All significant intercompany transactions and accounts are eliminated in consolidation.

The fiscal years of certain foreign subsidiaries end on December 31, however, any significant subsequent transactions for the period from January 1 to March 31 are reflected in the results of operations of NTT Group.

As of April 1, 2015, certain of NTT’s consolidated subsidiaries changed their fiscal year ends from December 31 to March 31, thereby eliminating a three-month lag between their fiscal year ends and NTT’s fiscal year end in NTT’s consolidated financial statements. The elimination of this lag was applied as a change in accounting policy. NTT did not make any retrospective adjustments to its financial statements as these changes did not have a material impact on the consolidated financial statements for the fiscal year ended March 31, 2015. As a result of this change, NTT’s retained earnings have increased by ¥700 million, and its accumulated other comprehensive income (loss), noncontrolling interests and redeemable noncontrolling interests have decreased by ¥9,702 million, ¥595 million and ¥419 million, respectively, as of the beginning of the previous fiscal year. In

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

addition, the change in cash and cash equivalents resulting from this change in fiscal year end is presented in the consolidated statements of cash flows under “Increase (decrease) in cash and cash equivalents due to change in fiscal year end of consolidated subsidiaries.”

As of April 1, 2016, certain of NTT’s consolidated subsidiaries changed their fiscal year ends from December 31 to March 31, thereby eliminating a three-month lag between their fiscal year ends and NTT’s fiscal year end in NTT’s consolidated financial statements. The elimination of this lag was applied as a change in accounting policy. NTT did not make any retrospective adjustments to its financial statements as these changes did not have a material impact on the consolidated financial statements for the fiscal year ended March 31, 2016. As a result of this change, NTT’s retained earnings, accumulated other comprehensive income (loss) and noncontrolling interests have decreased by ¥214 million, ¥1,454 million and ¥1,408 million, respectively, as of the beginning of the current fiscal year. In addition, the change in cash and cash equivalents resulting from this change in fiscal year end is presented in the consolidated statements of cash flows under “Increase (decrease) in cash and cash equivalents due to change in fiscal year end of consolidated subsidiaries.”

Investments in affiliated companies where NTT Group has the ability to exercise significant influence over the affiliated companies, but does not have a controlling financial interest, are accounted for under the equity method. NTT evaluates its investments in affiliates for impairment due to declines in value considered to be other than temporary. In performing its evaluations, NTT utilizes various information, as available, including cash flow projections, independent valuations and, if applicable, stock price analysis. In the event of a determination that a decline in value is other than temporary, a charge to earnings is recorded for the loss and a new cost basis in the investment is established.

Use of estimates—

The preparation of NTT’s consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include revenue recognition, estimated useful lives and recovery of the carrying amount of property, plant and equipment, software and certain other intangible assets, goodwill, investments, employees’ retirement benefit obligations, income tax uncertainties and realizability of deferred tax assets and accrued liabilities for point programs.

Effective July 1, 2014, NTT Group revised its estimate of the expected useful life of a part of the software for telecommunications network and internal-use software based on the actual utilization of the software to reflect an extended expected useful life of up to 7 years. This change in estimate has been accounted for prospectively.

The financial impact from this change in accounting estimate on the fiscal year ended March 31, 2015 to “Income before income taxes and equity in earnings (losses) of affiliated companies,” “Net income attributable to NTT” and “Per share of common stock” of “Net income attributable to NTT” adjusted to reflect the stock split (see Note 16 (“Equity”)) is ¥51,307 million, ¥21,754 million, and ¥9.95, respectively.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Revenue recognition—

Revenues arising from fixed voice related services, mobile voice related services, IP/packet communications services and other services are recognized at the time these services are provided to customers.

With regard to revenues from mobile voice related services and IP/packet communications services, monthly billing plans for mobile phone services generally include a certain amount of allowances (free minutes and/or packets), and the used amount of the allowances is subtracted from total usage in calculating the airtime revenue from a subscriber for the month. NTT Group offers billing arrangements, called “Nikagetsu Kurikoshi” (two-month carry over), “Zutto Kurikoshi” and “Packet Kurikoshi,” in which the unused allowances are automatically carried over. “Nikagetsu Kurikoshi” is a billing arrangement, in which the unused allowances of the monthly free minutes and/or packets are automatically carried over for up to the following two months. In addition, NTT Group offers an arrangement which enables the unused allowances that were carried over for the two months to be automatically used to cover the airtime and/or packet charges exceeding the allowances of the other subscriptions in the “Family Discount” group, a discount billing arrangement for families. Out of the unused allowance in a month, NTT Group defers revenues based on the portion which is estimated to be used in the following two months. As for the portion which is estimated to expire, NTT Group recognizes the revenue attributable to such portion of allowances ratably as the remaining allowances are utilized, in addition to the revenue recognized when subscribers make calls or utilize data transmissions. On June 1, 2015, NTT Group started providing “Zutto Kurikoshi,” in which the unused allowances of the monthly free minutes and/or packets are automatically and indefinitely carried over up to the upper limit set by each billing plan, and thereby terminated “Nikagetsu Kurikoshi” in principle. Out of the unused allowance in a month, NTT Group defers the revenues based on the portion which is estimated to be used in the following months. However, the unused allowances are carried over indefinitely, and NTT Group does not have sufficient historical evidence to reasonably estimate unused allowances that will be utilized in the following months. Hence NTT Group deducts and defers amounts allocated to unused allowances from revenues, which do not exceed the upper limit set by each billing plan. The deferred revenues are recognized as revenues in accordance with an actual use of the allowances in the following months. “Packet Kurikoshi” is a billing arrangement, in which the unused allowances of the monthly packet data which can be used without speed cap are automatically carried over for up to the following month. NTT Group defers revenues based on the portion of unused allowances that are estimated to be utilized in the next month. For the fiscal years ended March 31, 2015 and 2016, as NTT Group does not have sufficient historical evidence to reasonably estimate unused allowances that will be utilized in the next month, NTT Group deducts and defers all amounts allocated to unused allowances from revenues. For the fiscal year ended March 31, 2017, out of the unused allowance in a month, NTT Group defers the revenues based on the portion which is estimated to be used prior to expiration. As for the portion which is estimated to expire, NTT Group recognizes the revenue attributable to such portion of allowances ratably as the remaining allowances are utilized, in addition to the revenue recognized when subscribers utilize data transmissions. The deferred revenues are recognized as revenues in the next month.

Non-recurring upfront fees such as activation fees are deferred and recognized as revenues over the estimated average period of the subscription for each service. The related direct costs are deferred only to the extent of the non-recurring upfront fee amount and are amortized over the same period.

Sales of telecommunication equipment are recognized as income upon delivery of the equipment to purchasers, primarily agent resellers, when title to the product, and the risk and rewards of ownership, have been substantially transferred. Certain commissions paid to purchasers, primarily agent resellers, and incentives given to subscribers are recognized as a reduction of sales of telecommunication equipment.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NTT Group has offered an incentive program which provides certain discounts for subscribers who purchase qualified smartphones under the installment payment arrangement. Under the incentive program, NTT Group provides subscribers with the discounts depending on the number of installment payments upon certain events including replacement of the original smartphones. From the fiscal year ended March 31, 2015, NTT Group has recognized estimated future discount amount as a reduction of revenue since NTT Group developed sufficient historical evidence such as an analysis of the historical churn rate and replacement rate of the qualified and other smartphones to reasonably estimate the future discount amount.

With regard to sales of telecommunication equipment in the mobile communications business, NTT Group provides subscribers with options to select installment payments for the purchase of the handset over a period of 12 or 24 months. When installment payments are selected, under agreements entered into among NTT Group, subscribers and agent resellers, NTT Group provides financing by providing funds for the purchase of the handset by the subscribers. NTT Group then includes current installments for the receivable for the purchased handset with basic monthly charges and airtime charges for the installment payment term. Because equipment sales are recognized upon delivery of handsets to agent resellers, the advance payment for the purchased handset to agent resellers and subsequent cash collection of the installment receivable for the purchased handset from subscribers do not have an impact on our equipment sales.

Revenues from system integration services are recognized as work on contracts progresses. However, in cases where the contract period is short and the difference in the impact on the financial position or results of operations is immaterial, or in cases where it is difficult to make a reasonable estimate on the progress of the contracted work, revenues are recognized upon completion of the contracted services.

Provision for estimated losses on system integration projects, if any, is made in the fiscal period in which the loss becomes evident.

Cash and cash equivalents, short-term investments—

Excess cash is mainly invested in time deposits, marketable bonds of the Japanese Government or commercial paper. Those with original maturities of three months or less are classified as “Cash and cash equivalents” in the consolidated balance sheets. Those with original maturities of longer than three months and remaining maturities of 12 months or less at the end of the fiscal year are classified as “Short-term investments” in the consolidated balance sheets.

NTT Group has maintained a global cash management system (“Global CMS”) with a single financial institution since 2012 in order to improve the efficiency and effectiveness of its cash management. The Global CMS receives excess cash and extends loans to participating subsidiaries. With respect to offsetting in the Global CMS, as all of the criteria for offsetting have been met, NTT Group offsets positive and negative cash balances. NTT’s consolidated balance sheets as of March 31, 2016 and 2017 reflect such offset of ¥123,608 million and ¥172,208 million, respectively.

Foreign currency translation and transactions—

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end exchange rates and all income and expense accounts are translated at the average exchange rates prevailing during the year. The resulting translation adjustments are recognized as a component of “Accumulated other comprehensive income (loss).”

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Foreign currency receivables and payables are re-measured at appropriate year-end exchange rates and the resulting foreign currency transaction gains or losses are recorded as “Other, net” in the consolidated statements of income.

NTT Group transacts limited business in foreign currencies. The effect of exchange rate fluctuations from the initial transaction date to the settlement date is recorded as “Other, net” in the consolidated statements of income.

Marketable securities and other investments—

Unrealized gains and losses on available-for-sale securities, whose fair values are readily determinable, are reported as a component of accumulated other comprehensive income (loss), net of taxes. Equity securities whose fair values are not readily determinable and equity securities for which sales are restricted by contractual requirements are carried at cost. NTT Group periodically reviews the carrying amounts of its marketable securities for impairments that are other than temporary. If this evaluation indicates there is an impairment that is other than temporary, the security is written down to its estimated fair value. Debt securities designated as held-to-maturity are carried at amortized cost and are reduced to net realizable value for declines in market value unless such declines are deemed to be temporary. Realized gains and losses, which are determined on the average cost method, are reflected in income.

Inventories—

Inventories consist of telecommunications equipment to be sold, projects in progress, materials and supplies, which are stated at the lower of cost or market. The cost of telecommunications equipment to be sold and materials is determined on a first-in first-out basis. The cost of projects in progress is mainly attributable to that of software production for customers or that of construction of real estate held for resale, including labor and subcontractors’ cost base. The cost of supplies is determined by the average cost method or by the specific identification method. Due to the rapid technological changes associated with the wireless communications business, NTT DOCOMO recognized losses on write-downs for the fiscal years ended March 31, 2015, 2016 and 2017 totaling ¥13,716 million, ¥18,880 million and ¥11,043 million, respectively, which are included in “Cost of equipment sold” in the consolidated statements of income.

Property, plant and equipment and depreciation—

Property, plant and equipment are stated at cost. Depreciation is computed principally using the straight-line method at rates based on estimated useful lives of the assets. With minor exceptions, the estimated useful lives of depreciable properties (estimated economic life) are as follows:

Digital switch equipment (including wireless telecommunications equipment)	8 to 16 years
Cables	13 to 36 years
Tubes and tunnels	50 years
Reinforced concrete buildings	42 to 56 years
Machinery, vessels and tools	3 to 26 years

NTT and its subsidiaries in Japan traditionally used the declining-balance method for calculating depreciation of property, plant and equipment. Effective April 1, 2016, NTT and its subsidiaries adopted the straight-line method of depreciation. As NTT Group plans to complete the expansion of its service areas for fiber-optic services and LTE services in the network business, it has been shifting the focus of its capital

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

investments to improving the efficiency in using facilities while maintaining the current functionality. With respect to network services, NTT has started providing the “Hikari Collaboration Model,” the wholesale provision of fiber-optic access services, which can be used by customers of both fixed-line communications services and mobile communications services in the long-term. Through these efforts, NTT expects the stable usage of property, plant and equipment going forward. For these reasons, NTT believes that the straight-line depreciation method better reflects the pattern of consumption of the future benefits to be derived from those assets being depreciated. The effect of the change in the depreciation method is recognized prospectively as a change in the accounting estimate pursuant to FASB ASC-250, “Accounting Changes and Error Corrections.” In line with the change in the depreciation method, NTT and its subsidiaries reviewed the residual carrying amount of property, plant and equipment and made changes where necessary. As a result of the change in the depreciation method, depreciation expenses on a consolidated basis for the fiscal year ended March 31, 2017 decreased by ¥244,177 million. Consolidated net income attributable to NTT and consolidated net income attributable to NTT per share for the fiscal year ended March 31, 2017 increased by ¥132,222 million and ¥64.60, respectively.

Depreciation expense is computed based on the total depreciable amount, which is cost, net of estimated residual value. Maintenance and repairs, including minor renewals and betterments, are charged to income as incurred.

Capitalized interest—

NTT Group capitalized interest related to the construction of property, plant and equipment over the period of construction. NTT Group also capitalizes interest associated with the development of internal-use software. NTT Group amortizes such capitalized interest over the estimated useful lives of the related assets. Total interest costs incurred were ¥47,958 million, ¥45,446 million and ¥41,114 million, of which ¥3,942 million, ¥3,776 million and ¥3,353 million were capitalized for the fiscal years ended March 31, 2015, 2016 and 2017, respectively.

Impairment of long-lived assets—

Long-lived assets to be held and used, including property, plant and equipment, software and certain other intangible assets with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, the loss recognized is the amount by which the carrying amount of the asset exceeds its fair value as measured through various valuation techniques, including discounted cash flow models, quoted market value and third-party independent appraisals, as considered necessary. Assets to be disposed of by sale are reported at the lower of the carrying amount or estimated fair value less costs to sell.

Goodwill, Software and other intangible assets—

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and recognized. Goodwill is not amortized, but tested for impairment at least annually and more frequently when indicators of impairment are present. NTT Group may perform a qualitative assessment to some or all of the reporting units before applying the two-step impairment test. If NTT Group concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount including goodwill, it is not required to perform the two-step impairment test.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
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NTT Group performs the qualitative assessment for certain goodwill but bypasses this qualitative assessment and proceeds directly to the two-step impairment test for other goodwill. Under the first step, the fair value of the reporting unit is compared with its carrying amount (including goodwill). If the fair value of the reporting unit is less than its carrying amount, an indication of goodwill impairment exists for that reporting unit and NTT Group must perform the second step of the impairment test (measurement). Fair values of the reporting units are determined using a discounted cash flow analysis, among other methods. Under the second step, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of the goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. If the fair value of the reporting unit exceeds its carrying amount, the second step does not need to be performed.

During the fiscal year ended March 31, 2015, NTT DOCOMO realigned its operating segments in order to reflect its changing business management. As a result of this realignment of operating segments, NTT Group reorganized the reporting structure of its mobile communications business segment into communications, smart life and other businesses reporting units. In conjunction with this change, NTT Group reassigned the goodwill attributable to these reporting units prior to the realignment to the communications, smart life and other businesses reporting units using a relative fair value allocation approach based on the composition of each business reporting unit prior to the realignment.

For the fiscal year ended March 31, 2016, NTT changed the goodwill impairment testing date for certain of NTT's consolidated subsidiaries from September 30 to October 31. NTT concludes this change in accounting policy is preferable, as it more closely aligns the goodwill impairment testing date with NTT's strategic planning processes and promotes more accurate goodwill impairment analysis. The change in testing date does not delay, accelerate or avoid any potential goodwill impairment loss for the consolidated fiscal year ended March 31, 2016. NTT also performed annual goodwill impairment tests on September 30, 2015 prior to the change in the testing date, and on October 31, 2015 following the change, in respect of the fiscal year ended March 31, 2016. NTT concluded that NTT's goodwill was not impaired as of either dates.

Intangible assets other than goodwill primarily consist of computer software. NTT Group capitalizes the cost of internal-use software, which has a useful life in excess of one year. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Capitalized computer software costs are amortized on a straight-line basis over a period of generally from five to seven years.

The intangible assets with indefinite lives are not amortized, but tested for impairment on an annual basis and when indicators of impairment are present.

Income taxes—

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts and the tax bases of assets or liabilities and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applicable during the periods in which existing temporary differences reverse and operating loss carryforwards are utilized.

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A valuation allowance is recognized to reduce deferred tax assets to the amount more likely than not to be realized.

The effect of income tax positions are recognized only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Derivative financial instruments—

NTT Group uses several types of derivative financial instruments to manage market risks such as fluctuations in foreign currency exchange rates and interest rates. NTT Group does not use derivative instruments for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities in the balance sheet at fair value and are reported in “Prepaid expenses and other current assets,” “Other assets,” “Current liabilities—Other” and “Long-term liabilities—Other” in the consolidated balance sheets. Classification of each derivative as current or non-current is based upon whether the maturity of each instrument is less than or greater than 12 months. Changes in fair value of derivative financial instruments are either recognized in income or shareholders’ equity (as a component of accumulated other comprehensive income (loss)), depending on whether the derivative financial instrument qualifies as a hedge and the derivative is being used to hedge changes in fair value or cash flows.

The fair values of forward exchange contracts, interest rate swap agreements, currency swap agreements, currency option agreements and forward contracts are measured by inputs derived principally from observable market data provided by financial institutions.

For derivatives classified as fair value hedges, changes in the fair value of derivatives designated and effective as fair value hedges for recognized assets or liabilities or unrecognized firm commitments are recognized in earnings as offsets to changes in the fair value of the related hedged assets or liabilities.

For derivatives classified as cash flow hedges, changes in the fair value of derivatives designated and effective as cash flow hedges for forecasted transactions or exposures associated with recognized assets or liabilities are initially recorded in other comprehensive income (loss) and reclassified into earnings when the hedged transaction affects earnings.

From time to time, however, NTT Group may enter into derivatives that economically hedge certain of its risks, even though hedge accounting does not apply. In these cases, changes in the fair values of these derivatives are recognized in current period earnings.

NTT Group formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the balance sheet or (2) specific firm commitments or forecasted transactions. NTT Group also assesses (both at the hedge’s inception and on an ongoing basis at least quarterly) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not highly effective as a hedge, NTT Group discontinues hedge accounting. The amounts representing hedges’ ineffectiveness and the component of derivative instruments’ gain or loss excluded from the assessment of hedge effectiveness are reported as “Other, net” in the consolidated statements of income.

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Cash flows from financial instruments accounted for as hedges are classified in the consolidated statements of cash flows under the same category as the items being hedged.

Earnings per share—

Basic earnings per share (“EPS”) is computed based on the average number of shares outstanding during the year. Diluted EPS assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. Since NTT did not issue dilutive securities, there is no difference between basic EPS and diluted EPS.

For information on NTT’s stock split, see Note 16.

Variable Interest Entities—

NTT Group utilizes VIEs in the ordinary course of business mainly to facilitate the securitization of certain assets, such as real estate. If NTT Group has both the authority to direct the activities of a VIE and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, then NTT Group determines that it is the VIE’s primary beneficiary and consolidates the VIE.

Asset Retirement Obligations—

NTT Group’s legal obligations associated with the retirement of tangible long-lived assets are recorded as liabilities, measured at fair value, when those obligations are incurred if a reasonable estimate of fair value can be made. Upon initially recognizing liabilities for asset retirement obligations, an entity must capitalize the cost by recognizing an increase in the carrying amount of the related tangible long-lived assets.

NTT Group’s asset retirement obligations primarily relate to obligations to restore leased land and buildings for NTT Group’s telecommunications equipment to their original condition. NTT has concluded that their estimates of the fair value of these liabilities are immaterial.

Employees’ retirement benefits—

NTT Group recognizes the funded status of its benefit plan, measured as the difference between the plan assets at fair value and the benefit obligation, in the consolidated balance sheets. Changes in the funded status are recognized as changes in comprehensive income (loss) during the fiscal period in which such changes occur.

Pension benefits earned during the year as well as interest on projected benefit obligations are currently accrued. Prior service cost and net actuarial loss in excess of 10% of the greater of the projected benefit obligation or the fair value of plan assets, both of which are included in “Accumulated other comprehensive income (loss),” are amortized over the expected average remaining service period of employees on a straight-line basis.

Accrued liabilities for point programs—

NTT Group grants “points” to customers based on the usage of mobile, FLET’S Hikari and other services, which provide benefits, including discounts on merchandise, and records “Accrued liabilities for point programs” relating to the points that customers earn.

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Redeemable noncontrolling interests—

A portion of noncontrolling interests of certain subsidiaries can be put to NTT Group upon certain events. As redemption of the noncontrolling interests is not solely in the control of NTT Group, the redemption amount based on fair value price is considered as “Redeemable noncontrolling interests” and presented in between Liabilities and Equity in the consolidated balance sheets.

As of March 31, 2016 and 2017, NTT Group believes that subsequent adjustment of the presented amount of redeemable noncontrolling interests is unnecessary mainly because they are not currently redeemable and it is not probable that they will become redeemable. NTT Group will annually reassess the probability.

Reclassifications—

On April 1, 2016, in order to clarify disclosures, other intangible asset impairments previously classified under “Goodwill and other intangible asset impairments” have been reclassified into “Impairment losses—Other,” and goodwill impairments previously classified under “Goodwill and other intangible asset impairments” have been reclassified into “Impairment losses—Goodwill.” In accordance with these reclassifications, impairment losses of property, plant and equipment and software previously classified under “Impairment losses” have been reclassified into “Impairment losses—Other.”

Certain items for prior periods’ financial statements have been reclassified to conform to the presentation for the fiscal year ended March 31, 2017.

(2) Recently issued Accounting Standards

Revenue from Contracts with Customers—

On May 28, 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers,” which requires an entity to recognize revenue when the entity transfers control of promised goods or services to customers. Revenue is recognized in an amount that reflects the consideration an entity expects to receive in exchange for those goods or services. An entity also is required to disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective.

The FASB also issued ASU 2016-08 “Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” ASU 2016-10 “Identifying Performance Obligations and Licensing,” ASU 2016-12 “Narrow-Scope Improvements and Practical Expedients,” ASU 2016-20 “Technical Corrections and Improvements to Topic 606,” and ASU 2017-05 “Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets” in March, April, May and December 2016, and February 2017, respectively, to amend ASU 2014-09 partially.

On August 12, 2015, the FASB issued ASU 2015-14 “Revenue from Contracts with Customers: Deferral of the Effective Date,” and deferred the effective date of ASU 2014-09 by one year. Consequently, the new standard is effective for annual reporting periods beginning after December 15, 2017. The standard is expected to take effect for NTT Group on April 1, 2018. Early adoption of the standard as of April 1, 2017 would also be permitted.

The two permitted transition methods under the new standard are the full retrospective method, or the modified retrospective method. Under the full retrospective method, all periods presented will be updated upon

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adoption to conform to the new standard and a cumulative adjustment for effects on periods prior to the reporting period will be recorded to retained earnings at the beginning of the initial reporting period. Under the modified retrospective approach, the current reporting period will be updated to conform to the new standard and a cumulative adjustment for effects of applying the new standard to periods prior to the reporting period that includes the date of initial application is recorded to retained earnings as of the date of initial application, and also incremental disclosures related to the amount affected by the application of this new standard are required.

NTT has not decided on a transition method and is currently evaluating the impact of the new standard on NTT's consolidated financial statements and related disclosures. The impact on revenue resulting from the application of the new standard will be subject to assessments that are dependent on many variables, including, but not limited to, the terms, the transaction prices including discounts and the mixture of the goods and services of NTT's contractual arrangements. While NTT is continuing to assess all potential impacts resulting from the application of the new standard, NTT believes that the most significant impacts may include the following items:

- The new standard requires the recognition of incremental costs of obtaining contacts and direct costs of fulfilling contracts with customers as assets. Under the current standard, those costs relating to communication services provided on the Regional communications business, the Long distance and international communications business, and the Mobile communications business are capitalized and amortized up to the upfront fees as the upper limit over the estimated average period of the subscription for each service. After adopting the new standard, all of those costs will be capitalized, and therefore, part of the sales commissions and other charges that have previously been treated as expenses will be recognized as additional assets. For the fiscal year ended March 31, 2017, the majority of the amount of sales commissions incurred for agent resellers was ¥320,800 million which was mainly included in the Mobile communication business.
- The new standard requires that if customers are granted by an entity the option to acquire additional goods or services at a discount by a contract agreed between the customer and the entity, the entity shall identify this option as a separate performance obligation upon granting such option as a part of the consideration of the transaction being recognized as contract liabilities, and recognize revenue when the additional good or service is transferred at a discount to the customer or when such option expires. Under the current standard, NTT Group records accrued liabilities relating to the points that customers earn. After adopting the new standard, NTT Group will recognize a part of the consideration for transactions of mobile communications and other services as contract liabilities at the time when the points are granted, and recognize revenue when points are used for additional goods or services at a discount. For the fiscal year ended March 31, 2017, the majority of the amount of expenses for point programs under the existing standards was ¥94,291 million, which was included in the Mobile communication business.

NTT Group is in the process of setting up operating processes and internal controls for the adoption of the new revenue recognition standard.

Recognition and Measurement of Financial Assets and Financial Liabilities—

On January 5, 2016, the FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities," which makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU 2016-01 requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. ASU 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounted for under the equity method. The new standard also affects the recognition of changes in fair value of financial liabilities under the fair value option and the

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presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017. The new standard is expected to take effect for NTT Group on April 1, 2018.

NTT is currently evaluating the effect of adopting the ASU.

Leases—

On February 25, 2016, the FASB issued ASU 2016-02 “Leases,” which requires all lessees to recognize right-of-use assets and lease liabilities, principally. The new standard is effective for fiscal years beginning after December 15, 2018. The new standard is expected to take effect for NTT Group on April 1, 2019. Early adoption is permitted.

The adoption of the new accounting standard is expected to result in the recognition of additional right-of-use assets and lease liabilities. NTT is considering the scope and the amounts of assets and liabilities to be recognized.

Simplifying the Test for Goodwill Impairment—

On January 26, 2017, the FASB issued ASU 2017-04 “Simplifying the Test for Goodwill Impairment,” which eliminates Step 2 from the goodwill impairment test. Instead, the amendments in this update require that an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019 on a prospective basis. The new standard is expected to take effect for NTT Group on April 1, 2020. Early adoption of the standard for goodwill impairment tests with measurement dates after January 1, 2017 would also be permitted.

NTT is currently evaluating the effect of adopting the ASU.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost—

On March 10, 2017, the FASB issued ASU2017-07 “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” which requires that employers report the service cost component in the same line item(s) as other employee compensation costs arising from services rendered during the period, and report the other components of net benefit cost separately from the service cost component and outside a subtotal of operating income. Only the service cost component will be eligible for capitalization. The updated presentation of net benefit cost in an employer’s income statement is to be applied retrospectively while the change in capitalized benefit cost is to be applied prospectively. ASU 2017-07 is effective for fiscal years beginning after December 15, 2017. The standard is expected to take effect for NTT Group on April 1, 2018. Early adoption of the standard as of April 1, 2017 would also be permitted.

NTT is currently evaluating the effect of adopting the ASU.

3. Related party transactions:

Related party transactions mainly consist of transactions with affiliated companies. NTT Group has entered into a number of different types of transactions with affiliated companies, the most significant of which are the purchases of terminal equipment and materials and the receipt of certain services. Transactions with affiliated companies are based on the values that approximate arm’s-length prices.

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Transactions with affiliated companies for each of the three years in the period ended March 31, 2017 and the related balances at March 31, 2015, 2016 and 2017 are as follows:

	2015	2016	2017
	Millions of yen		
Operating revenues	¥ 45,703	¥ 53,590	¥ 69,134
Operating expenses	¥137,483	¥140,838	¥ 136,200
Receivables	¥ 32,859	¥ 34,247	¥ 31,653
Payables	¥112,309	¥119,562	¥ 149,862

Dividends from affiliated companies accounted for by the equity method for the fiscal years ended March 31, 2015, 2016 and 2017 were ¥25,881 million, ¥20,462 million and ¥16,068 million, respectively.

4. Variable Interest Entities

NTT Group makes investments in business entities that develop and lease real estates. Those entities have been determined to be a VIE as most of the decision-making authority for the entities does not reside within the entities' equity interests, but rather is embedded in the real estate management contracts between those entities and NTT Group, under which decision-making authority is delegated to real estate companies or other companies within NTT Group. In addition, NTT Group has the greater part of the equity interests in such entities, and NTT Group has therefore determined that it is the primary beneficiary of those entities.

The assets and liabilities of VIEs relating to real estate development and rental for which NTT Group has determined it is the primary beneficiary and which are consolidated in NTT Group's consolidated balance sheets as of March 31, 2016 and 2017 are as follows:

	2016	2017
	Millions of yen	
	Develop and lease real estate ^(*)1,2)	
Current assets	¥ 21,550	¥ 15,984
Property, plant and equipment	168,252	165,701
Investments and other assets	2,766	3,021
Current liabilities	2,648	2,098
Long-term liabilities	65,196	64,569

(*)1) Property, plant and equipment, Current liabilities and Long-term liabilities of VIEs established to develop and lease real estates included "Land" totaling ¥122,878 million and ¥122,878 million, "Current portion of long-term debt" totaling ¥800 million and ¥800 million, and "Long-term debt" totaling ¥37,300 million and ¥36,500 million at March 31, 2016 and 2017, respectively.

(*)2) "Current portion of long-term debt" and "Long-term debt (excluding current portion)" above are secured by the VIEs' land and buildings totaling ¥230,636 million and ¥227,796 million at March 31, 2016 and 2017, respectively.

In addition, there are certain investments in business entities that develop and lease real estates for which NTT Group is not the primary beneficiary. Those entities have been determined to be a VIE as most of the decision-making authority for the entities does not reside within the entities' equity interests, but rather is embedded in the real estate management contracts between those entities and third parties. Under these real estate management contracts, decision-making authority is not granted to NTT Group, and NTT Group has therefore determined that it is not the primary beneficiary of those entities. As of March 31, 2016 and 2017, the total investment amount in these entities was ¥6,343 million and ¥6,999 million, respectively, which represent NTT Group's maximum loss amount.

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NTT Group has adopted ASU 2015-02 “Amendments to the Consolidation Analysis” beginning on April 1, 2016. Although there are entities involved in real estate development that have been newly determined to be nonconsolidated VIEs as a result of the new ASU, the effect of the adoption is immaterial.

5. Cash and cash equivalents:

Cash and cash equivalents at March 31, 2016 and 2017 comprised the following:

	2016	2017
	Millions of yen	
Cash	¥ 869,296	¥893,797
Commercial paper and certificates of deposit, commercial paper and marketable securities purchased under agreements to resell	433	236
Time deposits, certificates of deposit and other	218,546	31,180
Total	¥1,088,275	¥925,213

Commercial paper and certificates of deposit, commercial paper and marketable securities purchased under agreements to resell, and time deposits, certificates of deposit and other are stated at amounts that approximate fair value.

Commercial paper are classified as available-for-sale securities.

Cash is mainly deposited into several domestic financial institutions and there is no significant concentration of cash deposits in any particular financial institution.

6. Inventories:

Inventories at March 31, 2016 and 2017 comprised the following:

	2016	2017
	Millions of yen	
Telecommunications equipment to be sold and materials	¥153,463	¥ 155,248
Projects in progress	142,845	112,514
Supplies	118,273	97,617
Total	¥414,581	¥ 365,379

7. Impairment of long-lived assets:

Impairment of multimedia broadcasting business for mobile devices assets—

For the fiscal year ended March 31, 2015, NTT DOCOMO and its subsidiaries failed to meet the forecasted revenues of the multimedia broadcasting business for mobile devices due to new competition in content and services provided through smart phones and other devices, resulting in a significant increase in uncertainty over the likelihood of future significant improvement of the profitability of this business. This triggered NTT DOCOMO to conduct the recoverability for its long-lived assets, including property, plant and equipment and intangible assets, of the multimedia broadcasting business for the fiscal year ended March 31, 2015. The estimated undiscounted future cash flows generated by such long-lived assets were less than their carrying

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amounts. The fair value of long-lived assets related to the multimedia broadcasting business for mobile devices was estimated primarily based on the discounted cash flow method. As the discounted cash flows expected to be generated by the long-lived assets would be a negative, NTT DOCOMO recorded an impairment for the entire carrying amount of these assets. In addition, NTT DOCOMO estimated the fair value of certain equipment related to the multimedia broadcasting business based on the observable market transactions of comparable assets, such as the orderly liquidation value of each asset.

Consequently, a reduction of the carrying amounts to fair value was necessary resulting in NTT DOCOMO recording a non-cash impairment loss of ¥30,161 million as “Impairment losses—Other” in the consolidated statements of income, which included an impairment loss for the intangible assets of ¥6,365 million.

During the fiscal year ended March 31, 2016, NTT DOCOMO also recorded a non-cash impairment loss of ¥4,542 million in “Impairment losses—Other” in the consolidated statements of income, related to the multimedia broadcasting business for mobile devices assets which included an impairment loss for the intangible assets of ¥733 million.

NTT DOCOMO terminated the multimedia broadcasting business for mobile devices on June 30, 2016. The termination did not result in the recognition of impairment losses.

8. Investments in affiliated companies:

PLDT Inc. (formerly Philippine Long Distance Telephone Company)—

PLDT Inc. (“PLDT”) is a telecommunication operator in the Philippines and a public company listed on the Philippine Stock Exchange and the New York Stock Exchange.

NTT Group held approximately 20% of PLDT’s outstanding common shares and approximately 12% of voting interest in PLDT as of March 31, 2016 and 2017. The ratio of outstanding common shares and voting interest in PLDT held by NTT Group as of March 31, 2016 and 2017 are disproportionate because PLDT issued voting preferred stock in October, 2012.

NTT Group applies the equity method of accounting for the investment in PLDT, as NTT Group has the ability to exercise significant influence over PLDT given NTT DOCOMO’s board representation and the right to exercise its voting rights in accordance with an agreement between PLDT and its major shareholders.

NTT Group’s carrying amount of its investment in PLDT was ¥145,847 million and ¥133,823 million as of March 31, 2016 and 2017, respectively. The aggregate market price of the PLDT shares owned by NTT Group was ¥214,138 million and ¥162,096 million as of March 31, 2016 and 2017, respectively.

Tata Teleservices Limited—

Tata Teleservices Limited (“TTSL”) is a telecommunication operator in India and a privately held company.

As of March 31, 2016 and 2017, NTT Group held approximately 26.5% and 21.6%, respectively, of the outstanding common shares of TTSL.

Under the shareholders agreement (the “Agreement”) entered into among TTSL, Tata Sons Limited (“Tata Sons”) and NTT DOCOMO, when NTT DOCOMO entered into a business alliance with TTSL in March 2009,

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NTT DOCOMO shall have certain shareholder rights including the right to require Tata Sons to find a suitable buyer for NTT DOCOMO's entire stake (1,248,974,378 shares, or approximately 26.5% of outstanding shares) in TTSL for 50% of the NTT DOCOMO's acquisition price, which amounts to 72.5 billion Indian rupees (or ¥124.7 billion*¹) or at fair value, whichever is higher, in the event that TTSL fails to achieve certain specified performance targets by March 31, 2014. The right became exercisable on May 30, 2014, and NTT DOCOMO exercised the right on July 7, 2014.

The obligation of Tata Sons under the Agreement was not fulfilled, although NTT DOCOMO repeatedly held discussions with Tata Sons in regards to the sale of its entire stake in TTSL, pursuant to the Agreement. Accordingly, NTT DOCOMO submitted its request for arbitration to the London Court of International Arbitration ("LCIA") on January 3, 2015.

NTT DOCOMO received a binding arbitration award from the LCIA on June 23, 2016. The award orders that Tata Sons pay damages to NTT DOCOMO in the amount of approximately \$1,172 million (or ¥130.0 billion*²) for Tata Sons' breach of the shareholders agreement, upon NTT DOCOMO's tender of its entire stake in TTSL to Tata Sons or its designee.

On July 8, 2016, NTT DOCOMO submitted an application to the High Court in India ("the Court") requesting enforcement of the LCIA Award in India. On February 25, 2017, NTT DOCOMO and Tata Sons submitted a joint application to the Court requesting the Court to declare that the LCIA Award is enforceable in India. On April 28, 2017, the Court delivered a court decision approving the joint application. The remittance will be made after the necessary procedures under Indian regulations are completed.

Since the transfer of NTT DOCOMO's shares in TTSL has not been completed as of March 31, 2017, NTT DOCOMO has not accounted for the transfer of the shares considering uncertain circumstances. NTT Group may recognize a gain if the transfer of TTSL shares with the remittance from Tata Sons described above is completed. NTT Group continues to account for the investment in TTSL under the equity method as NTT Group continues to hold approximately 21.6% of the outstanding voting shares of TTSL and has the representation on the Board of Directors of TTSL.

Impairment—

NTT Group reviews factors such as the financial condition and near-term prospects of its affiliates on a regular basis in order to determine if any decline in investment values was other than temporary.

During the fiscal years ended March 31, 2015 and 2016, NTT Group determined that the value of the investment has not suffered a decline that was other than temporary.

NTT Group determined that there were other-than-temporary declines in values, of certain investments including Hutchison Telephone Company Limited and recognized impairment losses aggregating ¥23,342 million, net of deferred income taxes of ¥578 million, for the fiscal year ended March 31, 2017. These impairment losses are included in the consolidated statements of income under "Equity in earnings (losses) of affiliated companies."

*1 1 rupee = ¥1.72 as of May 31, 2017

*2 \$1 = ¥110.96 as of May 31, 2017

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NTT's share of undistributed earnings of its affiliated companies included in its consolidated retained earnings were ¥90,631 million, ¥ 97,372 million and ¥127,168 million as of March 31, 2015, 2016 and 2017, respectively.

NTT Group's total investment in its affiliated publicly-held companies at March 31, 2016 and 2017 were ¥164,855 million and ¥152,725 million, respectively, and based on quoted market prices at that date, the related market values were ¥245,613 million and ¥189,553 million, respectively.

The total carrying amounts of NTT's investments in affiliates in the consolidated balance sheets at March 31, 2016 and 2017 were greater by ¥271,175 million and by ¥206,661 million, respectively, than its aggregate underlying equity in net assets of such affiliates as of the date of the most recent available financial statements of the investees. The differences mainly consist of investor level goodwill and fair value adjustments for amortizable intangible assets.

9. Marketable securities and other investments:

Marketable securities and other investments include available-for-sale securities composed of equity securities and debt securities and held-to-maturity debt securities. The aggregate carrying amounts, gross unrealized holding gains, gross unrealized holding losses and fair value of available-for-sale and held-to-maturity securities at March 31, 2016 and 2017 are as follows:

	March 31, 2016			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Millions of yen				
Available-for-sale:				
Equity securities	¥145,893	¥184,204	¥667	¥329,430
Debt securities	85,426	1,730	179	86,977
Held-to-maturity:				
Debt securities	5,461	105	2	5,564
Total	<u>¥236,780</u>	<u>¥186,039</u>	<u>¥848</u>	<u>¥421,971</u>
	March 31, 2017			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Millions of yen				
Available-for-sale:				
Equity securities	¥140,673	¥194,501	¥ 780	¥334,394
Debt securities	96,231	1,635	368	97,498
Held-to-maturity:				
Debt securities	4,479	82	7	4,554
Total	<u>¥241,383</u>	<u>¥196,218</u>	<u>¥ 1,155</u>	<u>¥436,446</u>

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Gross unrealized holding losses and the fair value of available-for-sale securities and held-to-maturity securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2016 and 2017 are as follows:

	March 31, 2016			
	Less than 12 months		12 months or longer	
		Gross unrealized holding losses		Gross unrealized holding losses
	Fair value		Fair value	
Millions of yen				
Available-for-sale:				
Equity securities	¥ 4,180	¥505	¥ 623	¥162
Debt securities	14,396	100	6,122	79
Held-to-maturity:				
Debt securities	305	2	—	—
	March 31, 2017			
	Less than 12 months		12 months or longer	
		Gross unrealized holding losses		Gross unrealized holding losses
	Fair value		Fair value	
Millions of yen				
Available-for-sale:				
Equity securities	¥ 8,827	¥757	¥ 81	¥ 23
Debt securities	26,143	238	13,835	130
Held-to-maturity:				
Debt securities	201	2	301	5

In the ordinary course of business, NTT Group maintains equity securities as long-term investment accounted for under the cost method, which are included in “Marketable securities and other investments.” The total carrying amounts of those securities were ¥59,512 million and ¥61,474 million at March 31, 2016 and 2017, respectively. Unless NTT Group identifies events or changes in circumstances that may have had a significant adverse effect on the fair value of these investments, the fair value of such cost method investments is not estimated. NTT Group did not evaluate fair values of investment securities with an aggregate carrying amount of ¥58,176 million and ¥61,465 million for impairment at March 31, 2016 and 2017, respectively.

Proceeds, gross realized gains and losses from sales of available-for-sale securities, which were included in “Other, net” of “Other income (expenses)” in the consolidated statements of income, for each of the three years in the period ended March 31, 2017 are as follows:

	2015	2016	2017
	Millions of yen		
Proceeds	¥10,117	¥35,091	¥25,231
Gross realized gains	5,158	22,095	18,659
Gross realized losses	875	101	377

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Maturities of debt securities classified as held-to-maturity at March 31, 2016 and 2017 are as follows.

	March 31, 2016		March 31, 2017	
	Carrying Amount	Fair value	Carrying Amount	Fair value
	Millions of yen			
Due within 1 year	¥1,092	¥1,093	¥ 349	¥ 346
Due after 1 year through 5 years	825	832	623	630
Due after 5 years through 10 years	3,244	3,293	3,007	3,039
Due after 10 years	300	346	500	539
Total	<u>¥5,461</u>	<u>¥5,564</u>	<u>¥4,479</u>	<u>¥4,554</u>

10. Goodwill, Software and other intangible assets:

Goodwill—

As a result of the annual impairment test, a goodwill impairment loss of ¥48,823 million was recognized for the fiscal year ended March 31, 2017 for goodwill attributable to the Dimension Data reporting unit in the long distance and international communications business segment. This impairment loss was a result of a re-evaluation of Dimension Data's business plan considering declining profitability due to business expansion and investments in infrastructure business, and the impact of measures expected to be promoted by NTT Group going forward. The fair value of the reporting unit was determined using the discounted cashflow method.

The amount of goodwill included in the mobile communications business segment is mainly related to NTT DOCOMO's share repurchase program. The repurchases of shares by NTT DOCOMO resulting in increases in NTT's ownership interest in NTT DOCOMO were accounted for as acquisitions of minority interests using the purchase method, but have been accounted for as equity transactions with noncontrolling interests since April 2009.

The changes in goodwill by reportable segment for the fiscal years ended March 31, 2016 and 2017 are as follows:

	2016				
	Long distance and international communications business	Mobile communications business	Data communications business	Other	Total
	Millions of yen				
Balance at March 31, 2015	¥442,100	¥497,215	¥244,275	¥2,571	¥1,186,161
Goodwill acquired during year	84,712	—	17,521	—	102,233
Impairment losses	(4,719)	—	—	—	(4,719)
Foreign currency translation adjustments	(22,754)	(3,175)	(17,037)	—	(42,966)
Other	(2,700)	(10,937)	2,136	—	(11,501)
Balance at March 31, 2016	<u>¥496,639</u>	<u>¥483,103</u>	<u>¥246,895</u>	<u>¥2,571</u>	<u>¥1,229,208</u>

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	2017				
	Long distance and international communications business	Mobile communications business	Data communications business	Other	Total
	Millions of yen				
Balance at March 31, 2016	¥496,639	¥483,103	¥246,895	¥2,571	¥1,229,208
Goodwill acquired during year	5,915	—	154,637	—	160,552
Impairment losses	(53,294)	—	—	—	(53,294)
Foreign currency translation adjustments	(21,263)	(3,033)	7,364	—	(16,932)
Other	(867)	—	(4,022)	—	(4,889)
Balance at March 31, 2017	¥427,130	¥480,070	¥404,874	¥2,571	¥1,314,645

Software and Other intangible assets—

The following table presents the major components of software and other intangible assets as of March 31, 2016 and 2017.

	March 31, 2016		
	Gross Carrying Amount	Accumulated amortization	Net carrying amount
	Millions of yen		
Amortizable intangible assets:			
Computer software	¥6,207,423	¥4,994,941	¥1,212,482
Rights to use utility facilities	338,098	299,614	38,484
Other	489,233	235,901	253,332
Total amortizable intangible assets	7,034,754	5,530,456	1,504,298
Non-amortizable intangible assets:			
Trademarks and trade names			53,356
Rights to acquire the building			16,792
Other			30,013
Total non-amortizable intangible assets			100,161
Total			¥1,604,459
	March 31, 2017		
	Gross Carrying Amount	Accumulated amortization	Net carrying amount
	Millions of yen		
Amortizable intangible assets:			
Computer software	¥6,401,191	¥5,191,706	¥1,209,485
Rights to use utility facilities	338,437	300,519	37,918
Other	586,775	274,343	312,432
Total amortizable intangible assets	7,326,403	5,766,568	1,559,835
Non-amortizable intangible assets:			
Trademarks and trade names			49,863
Rights to acquire the building			16,792
Other			36,913
Total non-amortizable intangible assets			103,568
Total			¥1,663,403

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The amount of amortizable intangible assets acquired during the fiscal year ended March 31, 2017 was ¥375,878 million, the main component of which was Computer software in the amount of ¥360,268 million.

The aggregate amortization expense for amortizable intangible assets for the fiscal years ended March 31, 2015, 2016 and 2017 were ¥449,993 million, ¥417,191 million and ¥408,789 million, respectively.

Computer software is recognized at cost and is amortized on a straight-line basis over its estimated useful life, which is generally from five to seven years. Rights to use utility facilities are acquired using lump-sum cash payments and mainly consist of cable tunnels and public use joint tunnels. Such rights are recorded at cost and are amortized on a straight-line basis over their estimated useful lives of 50 years. Other intangible assets are also recognized at cost and amortized on a straight-line basis over their estimated useful lives averaging 14 years.

Trademarks and trade names are intangible assets with indefinite lives acquired through business combinations.

The estimated aggregate amortization expenses for intangible assets during each of the five years ending March 31 are as follows:

<u>Fiscal year ending March 31</u>	<u>Millions of yen</u>
2018	¥ 402,974
2019	321,686
2020	245,586
2021	179,494
2022	114,233

11. Short-term borrowings and long-term debt:

Short-term borrowings at March 31, 2016 and 2017 comprised the following:

	<u>2016</u>	<u>2017</u>
	Millions of yen	
Borrowings denominated in Japanese yen:		
Unsecured short-term loans from financial institutions bearing interest at weighted average rates of 0.21% and 0.12% per annum at March 31, 2016 and 2017, respectively	¥ 41,004	¥ 40,804
Commercial paper bearing interest at weighted average rates of (0.00)% per annum at March 31, 2017	—	15,000
Borrowing denominated in foreign currencies:		
Unsecured short-term loans from financial institutions	88,652	171,403
Total short-term debt	<u>¥ 129,656</u>	<u>¥ 227,207</u>

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Long-term debt at March 31, 2016 and 2017 comprised the following:

	<u>2016</u>	<u>2017</u>
	Millions of yen	
Debt denominated in Japanese yen:		
0.05% – 2.02% coupon bonds due 2017 – 2031	¥1,465,959	¥ 1,266,000
0.16% floating rate bond due 2022	100	100
Secured indebtedness to financial institutions—		
0.51% (weighted average) loans due 2017 – 2029	38,782	37,782
0.26% (weighted average) floating rate loans due 2017 – 2032	21,596	24,950
Unsecured indebtedness to financial institutions—		
0.88% (weighted average) loans due 2017 – 2032	1,801,993	1,711,482
0.15% (weighted average) floating rate loans due 2017 – 2026	76,905	56,960
	<u>3,405,335</u>	<u>3,097,274</u>
Debt denominated in foreign currencies:		
1.40% – 2.15% U.S. dollar notes due 2017 – 2021	205,701	286,085
1.50% floating rate U.S. dollar notes due 2019	22,536	22,438
Unsecured indebtedness to financial institutions—		
2.41% (weighted average) U.S. dollar loans due 2018 – 2021	8,198	11,940
1.59% (weighted average) U.S. dollar floating rate loans due 2017 – 2029	247,522	349,497
0.72% (weighted average) U.K. pound floating rate loans due 2018	16,530	11,212
1.31% (weighted average) Euro loans due 2017 – 2027	53,308	14,473
0.15% (weighted average) Euro floating rate loans due 2017 – 2027	31,527	26,624
Other loans due 2017 – 2026	32,539	31,124
	<u>617,861</u>	<u>753,393</u>
Total long-term debt principal	4,023,196	3,850,667
Less—Deferred bond discounts	(216)	(285)
	4,022,980	3,850,382
Less—Current portion	(476,777)	(681,904)
Total long-term debt	<u>¥3,546,203</u>	<u>¥ 3,168,478</u>

Interest rates and due dates in the above table are stated at March 31, 2017.

All holders of the bonds and notes totaling ¥720,135 million issued by NTT, referred to in the above table, generally have preferential rights under the NTT Act to be paid prior to other unsecured indebtedness, subject to certain general preferential rights provided for in the Japanese Civil Code, such as preferential rights of employees to wages.

The bond and note agreements relating to NTT's long-term debt at March 31, 2017 generally provide that the bonds and notes may be purchased by NTT in the market or directly from the holders. Additionally, certain of the bonds and notes are redeemable at the option of NTT, generally at the principal amount.

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The balance of long-term debt as of March 31, 2017, and the aggregate amounts of annual maturities from the fiscal year ending March 31, 2018 to the fiscal year ending March 31, 2022 and thereafter are as follows:

<u>Fiscal year ending March 31</u>	<u>Millions of yen</u>
2018	¥ 681,904
2019	625,067
2020	465,675
2021	444,757
2022	395,517
Thereafter	<u>1,237,462</u>
Total	<u>¥3,850,382</u>

As of March 31, 2017, NTT Group has unused committed lines of credit amounting to ¥75.1 billion.

12. Employees' retirement benefits:

NTT and certain subsidiaries have defined contribution pension plans and defined benefit pension plans. Defined benefit pension plans consist of (i) Severance Payments and Contract-type Corporate Pension Plans and (ii) the NTT Kigyō-Nenkin-Kikin (NTT Corporate Defined Benefit Pension Plan ("NTT CDBP")).

(1) Defined Contribution Pension Plan

NTT and certain subsidiaries recorded retirement benefit expenses of ¥19,513 million and ¥22,783 million related to NTT Group's defined contribution benefit plan in the fiscal years ended March 31, 2016 and 2017, respectively.

(2) Severance Payments and Contract-type Corporate Pension Plans

Employees are generally entitled to lump-sum severance payments based on NTT's severance payment plans, determined by reference to the employee's basic rate of pay, length of service and other conditions.

NTT and certain subsidiaries sponsor non-contributory funded contract-type corporate pension plans, which cover 28% of the severance benefits under the severance payment plans to employees who are more than 50 years old and retire after twenty or more years of service. The benefits are also payable in a lump sum at the option of the employee.

NTT Group transitioned from the contract-type corporate pension plans to a defined contribution pension plan, effective from future contributions subsequent to April 1, 2014. NTT Group's contract-type corporate pension plan continues to remain for the pension benefit earned up to March 31, 2014.

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The following table presents the reconciliation of the changes in the plans' benefit obligations and fair value of plan assets during the fiscal years ended March 31, 2016 and 2017. NTT uses a March 31 measurement date.

	<u>2016</u>	<u>2017</u>
	Millions of yen	
Change in benefit obligations:		
Benefit obligation, beginning of year	¥1,879,969	¥1,882,026
Service cost	63,669	65,930
Interest cost	18,569	9,490
Actuarial loss (gain)	73,045	(24,665)
Other	4,857	(1,267)
Benefit payments - Lump-sum severance payments and Pension	(158,083)	(153,015)
Benefit obligation, end of year	<u>1,882,026</u>	<u>1,778,499</u>
Change in fair value of plan assets:		
Fair value of plan assets, beginning of year	1,122,736	1,041,561
Actual return on plan assets	15,578	15,085
Employer contributions	6,133	4,810
Other	1,826	200
Benefit payments - Pension	(104,712)	(99,536)
Fair value of plan assets, end of year	<u>1,041,561</u>	<u>962,120</u>
At March 31:		
Under-funded status	<u>¥ (840,465)</u>	<u>¥ (816,379)</u>

The following table presents the amounts recognized in the consolidated balance sheets:

	<u>2016</u>	<u>2017</u>
	Millions of yen	
At March 31:		
Liability for employees' retirement benefits	¥(925,239)	¥ (924,291)
Other assets	84,774	107,912
Accumulated other comprehensive loss (income)	235,895	208,297
Net amount recognized	<u>¥(604,570)</u>	<u>¥ (608,082)</u>

The following table provides the amounts recognized as accumulated other comprehensive loss (income):

	<u>2016</u>	<u>2017</u>
	Millions of yen	
At March 31:		
Net actuarial loss	¥ 236,607	¥ 208,000
Transition obligation	404	354
Prior service cost(*)	(1,116)	(57)
Total	<u>¥ 235,895</u>	<u>¥ 208,297</u>

(*) Prior service cost has been amortized on the straight-line method over the average remaining service period of employees expected to receive benefits under the plans.

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The following table provides the accumulated benefit obligation:

	2016	2017
	Millions of yen	
At March 31:		
Accumulated benefit obligation	¥1,877,512	¥1,778,498

The projected benefit obligation and the fair value of plan assets in the plans with projected benefit obligations in excess of fair value of plan assets at March 31, 2016 and 2017 are as follows:

	2016	2017
	Millions of yen	
At March 31:		
Projected benefit obligation	¥1,875,651	¥1,773,590
Fair value of plan assets	1,034,021	954,678

The accumulated benefit obligation and the fair value of plan assets in the plans with accumulated benefit obligations in excess of fair value of plan assets at March 31, 2016 and 2017 are as follows:

	2016	2017
	Millions of yen	
At March 31:		
Accumulated benefit obligation	¥1,871,038	¥1,773,589
Fair value of plan assets	1,034,021	954,678

The charges to income for employees' retirement benefits for each of the three years in the period ended March 31, 2017 included the following components:

	2015	2016	2017
	Millions of yen		
Service cost	¥ 65,160	¥ 63,669	¥ 65,930
Interest cost on projected benefit obligation	25,510	18,569	9,490
Expected return on plan assets	(22,027)	(21,624)	(19,936)
Amortization of net actuarial loss	3,463	5,389	8,702
Amortization of transition obligation	156	50	48
Amortization of prior service cost	(1,468)	(1,366)	(1,067)
Total	¥ 70,794	¥ 64,687	¥ 63,167

Other changes in plan assets and benefit obligations recognized as other comprehensive loss (income) for the fiscal years ended March 31, 2015, 2016 and 2017 are as follows:

	2015	2016	2017
	Millions of yen		
Other comprehensive loss (income)			
Net gain arising during period	¥(20,097)	¥79,091	¥(19,814)
Amortization of net actuarial loss	(3,463)	(5,389)	(8,701)
Amortization of transition obligation	(156)	(50)	(48)
Amortization of prior service cost	1,468	1,366	1,066
Other	(5,436)	(1,176)	(101)
Total	¥(27,684)	¥73,842	¥(27,598)

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The amounts of net actuarial loss, transition obligation and prior service cost included as accumulated other comprehensive loss (income) expected to be recognized as components of net periodic benefit cost for the fiscal year ending March 31, 2018 amount to ¥6,663 million, ¥47 million and ¥(444) million, respectively.

The following table presents the weighted-average assumptions used to determine the benefit obligations and net periodic benefit cost:

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Weighted-average assumption used to determine benefit obligations at March 31			
Discount rate	1.0%	0.5%	0.7%
Weighted-average assumption used to determine net periodic benefit cost for years ended March 31			
Discount rate	1.4%	1.0%	0.5%
Expected long-term rate of return on plan assets	2.0%	2.0%	2.0%

In determining the expected long-term rate of return on plan assets, NTT Group considers the current and projected asset allocations, as well as expected long-term investment returns and risks for each category of plan assets based on analysis of historical results.

The following table presents the fair values of pension plan assets of contract-type corporate pension plans as of March 31, 2016 and 2017. Descriptions of fair value hierarchy and the inputs used in measuring fair value are presented in Note 17.

	<u>As of March 31, 2016</u>			
	<u>Total</u>	<u>Fair value measurements using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>Millions of yen</u>			
Cash and cash equivalents	¥ 29,539	¥ 29,539	—	—
Debt securities				
Japanese government bonds/local government bonds	485,858	483,087	2,771	—
Domestic corporate bonds	52,610	—	52,610	—
Foreign government bonds	57,996	55,597	2,399	—
Foreign corporate bonds	2,147	829	1,318	—
Equity securities				
Domestic	34,318	34,296	22	—
Foreign	58,053	58,053	—	—
Life insurance company general accounts	180,552	—	180,552	—
Others	1,459	—	(10)	1,469
Subtotal	<u>902,532</u>	<u>661,401</u>	<u>239,662</u>	<u>1,469</u>
Investments valued at NAV				
Securities investment trust beneficiary certificates				
Domestic/debt securities	24,677			
Domestic/equity securities	12,728			
Foreign/debt securities	9,639			
Foreign/equity securities	8,579			
Pooled funds	<u>83,406</u>			
Total	<u>¥1,041,561</u>			

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	As of March 31, 2017			
	Total	Fair value measurements using		
		Level 1	Level 2	Level 3
Millions of yen				
Cash and cash equivalents	¥ 26,855	¥ 26,855	—	—
Debt securities				
Japanese government bonds/local government bonds	491,057	477,584	13,473	—
Domestic corporate bonds	65,561	—	65,561	—
Foreign government bonds	—	—	—	—
Foreign corporate bonds	—	—	—	—
Equity securities				
Domestic	57,145	57,145	—	—
Foreign	22,808	22,808	—	—
Life insurance company general accounts	163,762	—	163,762	—
Others	905	—	3	902
Subtotal	828,093	584,392	242,799	902
Investments valued at NAV				
Securities investment trust beneficiary certificates				
Domestic/debt securities	33,465			
Domestic/equity securities	9,954			
Foreign/debt securities	—			
Foreign/equity securities	3,321			
Pooled funds	87,287			
Total	¥962,120			

Effective April 1, 2016, NTT Group adopted the provisions of ASU 2015-07, “Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)”, in which investments measured at fair value using the net asset value per share method (or its equivalent) as a practical expedient are not required to be categorized in the fair value hierarchy and are separately presented to permit reconciliation of total pension plan assets. Certain prior year amounts were reclassified to conform to the current year presentation.

Cash and cash equivalents

Cash and cash equivalents include foreign currency deposits and call loans, and are all classified as Level 1.

Debt securities

Debt securities include Japanese government bonds and local government bonds, domestic corporate bonds, foreign government bonds and foreign corporate bonds. If active market prices are available, fair value is measured by quoted prices for identical assets in active markets, which is classified as Level 1. If active market prices are not available, fair value is measured by inputs derived principally from observable market data provided by financial institutions, which is classified as Level 2.

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Equity securities

Equity securities include domestic stocks and foreign stocks. If active market prices are available, fair value is measured by quoted prices for identical assets in active markets, which is classified as Level 1. If active market prices are not available, fair value is measured by inputs derived principally from observable market data provided by financial institutions, which is classified as Level 2.

Securities investment trust beneficiary certificates

Securities investment trust beneficiary certificates include bond investment trusts and foreign stock investment trusts. Fair value is evaluated on the basis of net asset value (NAV) per unit, which is reported by the trust operator. The NAV per unit is based on the total net asset value of the fund divided by the number of units outstanding.

Pooled funds

Underlying investments in pooled funds include government bonds, local government bonds, domestic stocks and foreign stocks. Fair value of pooled funds is measured based on NAV as reported by the trust operator.

Life insurance company general accounts

Life insurance company general accounts are the financial assets which the life insurance company guarantees a specified rate of return and principal and they are all classified as Level 2.

Others

Others include the assets whose fair value is measured by inputs derived from unobservable data, which is classified as Level 3.

Level 3 reconciliation is not disclosed, since the amounts in Level 3 are immaterial.

NTT Group's policy with respect to asset management planning is formulated with the ultimate objective of ensuring the steady disbursement of benefits in future periods. Therefore, the long-term objective of asset management is to secure the total profits deemed necessary to ensure pension financing. To achieve this, NTT Group selects various investments and takes into consideration their expected returns and risks and the correlation among them. NTT Group then sets the target allocation ratio for plan assets and endeavors to maintain that ratio. The target allocation ratio for plan assets is formulated from a mid- to long-term perspective and is reviewed annually. In the event that there is a significant change in the investment environment, NTT Group also reviews the target allocation ratio for plan assets as necessary. The target allocation ratio for plan assets for the fiscal years ended March 31, 2016 and 2017 are as follows:

	<u>2016</u>	<u>2017</u>
Domestic bonds	55.0%	65.0%
Domestic stocks	5.0%	10.0%
Foreign bonds	10.0%	—
Foreign stocks	10.0%	5.0%
Life insurance company general accounts	20.0%	20.0%
Total	<u>100.0%</u>	<u>100.0%</u>

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In the fiscal year ended March 31, 2017, with an objective of ensuring more stable pension financing, NTT Group revised the target allocation ratio for plan assets.

Domestic stocks include NTT's and its affiliates' common stock with an aggregate fair value of ¥1,497 million (0.2% of total plan assets) and ¥3,866 million (0.4% of total plan assets) at March 31, 2016 and 2017, respectively.

The estimated future benefit payments are as follows:

<u>Year ending March 31</u>	<u>Millions of yen</u>
2018	¥ 133,431
2019	135,014
2020	125,037
2021	112,878
2022	113,923
2023-2027	<u>560,966</u>
Total	<u>¥1,181,249</u>

(3) Social Welfare Pension Scheme and NTT Kigyō-Nenkin-Kikin (NTT CDBP)

Since its incorporation in April 1985, both NTT Group and its employees made contributions every year to the Nippon Telegraph and Telephone Mutual Aid Plan (the “NTT Mutual Aid Plan”), which was one of the Japanese government-regulated social welfare pension schemes, based on the Public Corporation Employee Mutual Aid Association Law. As a result of structural reforms, including those due to the amendments to the Japanese Welfare Pension Insurance Law that became effective April 1, 1997, the Law Concerning Defined Benefit Corporate Pension Plans which came into force in June 2001, and the transfer to the Japanese Government of the substitutional portion of the benefit obligations under the Law Concerning Defined Benefit Corporate Pension Plans, the NTT Mutual Aid Plan under the Public Corporation Employee Mutual Aid Association Law converted into (a) the national Kosei-Nenkin (the “National Plan”), (b) NTT CDBP and (c) the Special Accounting Fund for the NTT CDBP.

(a) The National Plan

The National Plan is a government-regulated social welfare pension plan under the Japanese Welfare Pension Insurance Law and since April 1997, both NTT Group and its employees have made contributions to such plan every year. It is considered as a multi-employer plan and contributions are recognized as expenses when contributions are required. The total amounts of contributions were ¥122,476 million, ¥123,462 million and ¥123,667 million for the fiscal years ended March 31, 2015, 2016 and 2017, respectively. In addition, the National Plan is a social welfare pension scheme, and because the information required by its accounting standards is limited, additional quantitative information relating to participation in the multi-employer plan is not disclosed.

(b) The NTT CDBP

The NTT CDBP is a pension plan structure under which both NTT Group and its employees make contributions to the plan.

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As the NTT CDBP is considered a defined benefit pension plan, it is accounted for separately from the severance payments and the contract-type corporate pension plans as described in (2) above.

The following table presents a reconciliation of the changes in the benefit obligations and fair value of assets of the NTT CDBP at March 31, 2016 and 2017. NTT uses a March 31 measurement date.

	<u>2016</u>	<u>2017</u>
	Millions of yen	
Change in benefit obligations:		
Benefit obligation, beginning of year	¥1,683,431	¥1,910,252
Service cost	40,999	48,077
Interest cost	16,602	9,363
Actuarial loss (gain)	197,662	(86,300)
Other	11,647	(392)
Benefit payments	(40,089)	(43,595)
Benefit obligation, end of year	<u>1,910,252</u>	<u>1,837,405</u>
Change in fair value of plan assets:		
Fair value of plan assets, beginning of year	1,165,104	1,146,880
Actual return on plan assets	(7,432)	38,071
Employer contributions	17,720	17,407
Employee contributions	3,270	3,350
Other	8,175	199
Benefits payments	(39,957)	(43,592)
Fair value of plan assets, end of year	<u>1,146,880</u>	<u>1,162,315</u>
At March 31:		
Under-funded status	<u>¥ (763,372)</u>	<u>¥ (675,090)</u>

The following table provides the amounts recognized in the consolidated balance sheets:

	<u>2016</u>	<u>2017</u>
	Millions of yen	
At March 31:		
Liability for employees' retirement benefits	¥(763,372)	¥(675,090)
Accumulated other comprehensive loss	269,435	162,590
Net amount recognized	<u>¥(493,937)</u>	<u>¥(512,500)</u>

The following table provides the amounts recognized as accumulated other comprehensive loss (income):

	<u>2016</u>	<u>2017</u>
	Millions of yen	
At March 31:		
Net actuarial loss	¥327,178	¥212,898
Prior service cost ^(*)	(57,743)	(50,308)
Total	<u>¥269,435</u>	<u>¥162,590</u>

(*) Prior service cost has been amortized on the straight-line method over the average remaining service period of employees expected to receive benefits under the plan.

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The following table provides the accumulated benefit obligation:

	2016	2017
	Millions of yen	
At March 31:		
Accumulated benefit obligation	¥1,618,499	¥1,569,815

The charges to income for employees' retirement benefits for each of the three years in the period ended March 31, 2017 included the following components:

	2015	2016	2017
	Millions of yen		
Service cost	¥ 37,281	¥ 40,999	¥ 48,077
Interest cost on projected benefit obligation	21,278	16,602	9,363
Expected return on plan assets	(25,825)	(28,708)	(28,008)
Amortization of net actuarial loss	5,783	4,997	17,717
Amortization of prior service cost	(7,487)	(7,513)	(7,464)
Employee contributions	(3,753)	(3,270)	(3,350)
Total	¥ 27,277	¥ 23,107	¥ 36,335

Other changes in plan assets and benefit obligations recognized as other comprehensive loss (income) for the fiscal years ended March 31, 2015, 2016 and 2017 are as follows:

	2015	2016	2017
	Millions of yen		
Other comprehensive loss (income)			
Net loss (gain) arising during period	¥ 6,359	¥233,802	¥ (96,363)
Amortization of net actuarial loss	(5,783)	(4,997)	(17,717)
Amortization of prior service cost	7,487	7,513	7,464
Other	(3,236)	5,102	(229)
Total	¥ 4,827	¥241,420	¥ (106,845)

The amounts of net actuarial loss and prior service cost included as accumulated other comprehensive loss (income) expected to be recognized as components of net periodic benefit cost for the fiscal year ending March 31, 2018 amount to ¥10,400 million and ¥(7,464) million, respectively.

The following table presents the weighted-average assumptions used to determine the benefit obligations and net periodic benefit cost:

	2015	2016	2017
Weighted-average assumption used to determine benefit obligations at March 31			
Discount rate	1.0%	0.5%	0.7%
Rate of compensation increase	3.4%	3.4%	3.4%
Weighted-average assumption used to determine net periodic benefit cost for years ended March 31			
Discount rate	1.4%	1.0%	0.5%
Rate of compensation increase	3.4%	3.4%	3.4%
Expected long-term rate of return on plan assets	2.5%	2.5%	2.5%

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In determining the expected long-term rate of return on plan assets, NTT Group considers the current and projected asset allocations, as well as expected long-term investment returns and risks for each category of the plan assets based on analysis of historical results.

The following table presents the fair values of pension plan assets of NTT CDBP as of March 31, 2016 and 2017. Descriptions of fair value hierarchy and the inputs used in measuring fair value are presented in Note 17.

	As of March 31, 2016			
	Total	Fair value measurements using		
		Level 1	Level 2	Level 3
	Millions of yen			
Cash and cash equivalents	¥ 7,562	¥ 7,562	—	—
Debt securities				
Japanese government bonds/local government bonds	332,087	325,561	6,526	—
Domestic corporate bonds	75,967	—	75,967	—
Foreign government bonds	62,128	59,883	2,245	—
Foreign corporate bonds	364	103	261	—
Equity securities				
Domestic	114,971	114,909	62	—
Foreign	93,561	93,561	—	0
Life insurance company general accounts	136,852	—	136,852	—
Others	1,743	—	2	1,741
Subtotal	825,235	601,579	221,915	1,741
Investments valued at NAV				
Securities investment trust beneficiary certificates				
Domestic/debt securities	106,456			
Domestic/equity securities	76,900			
Foreign/debt securities	32,385			
Foreign/equity securities	19,917			
Pooled funds	85,987			
Total	¥1,146,880			

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	As of March 31, 2017			
	Total	Fair value measurements using		
		Level 1	Level 2	Level 3
	Millions of yen			
Cash and cash equivalents	¥ 20,678	¥ 20,678	—	—
Debt securities				
Japanese government bonds/local government bonds	371,990	356,634	15,356	—
Domestic corporate bonds	99,497	—	99,497	—
Foreign government bonds	33,706	28,317	5,389	—
Foreign corporate bonds	736	655	81	—
Equity securities				
Domestic	117,906	117,906	—	—
Foreign	62,799	62,799	—	0
Life insurance company general accounts	138,539	—	138,539	—
Others	1,324	—	1	1,323
Subtotal	847,175	586,989	258,863	1,323
Investments valued at NAV				
Securities investment trust beneficiary certificates				
Domestic/debt securities	112,629			
Domestic/equity securities	71,141			
Foreign/debt securities	25,640			
Foreign/equity securities	18,582			
Pooled funds	87,148			
Total	¥1,162,315			

Effective April 1, 2016, NTT Group adopted the provisions of ASU 2015-07, “Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)”, in which investments measured at fair value using the net asset value per share method (or its equivalent) as a practical expedient are not required to be categorized in the fair value hierarchy and are separately presented to permit reconciliation of total pension plan assets. Certain prior year amounts were reclassified to conform to the current year presentation.

Cash and cash equivalents

Cash and cash equivalents include foreign currency deposits and call loans, and are all classified as Level 1.

Debt securities

Debt securities include Japanese government bonds and local government bonds, domestic corporate bonds, foreign government bonds and foreign corporate bonds. If active market prices are available, fair value is measured by quoted prices for identical assets in active markets, which is classified as Level 1. If active market prices are not available, fair value is measured by inputs derived principally from observable market data provided by financial institutions, which is classified as Level 2.

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Equity securities

Equity securities include domestic stocks and foreign stocks. If active market prices are available, fair value is measured by quoted prices for identical assets in active markets, which is classified as Level 1. If active market prices are not available, fair value is measured by inputs derived principally from observable market data provided by financial institutions, which is classified as Level 2.

Securities investment trust beneficiary certificates

Securities investment trust beneficiary certificates include bond investment trusts and foreign stock investment trusts. Fair value is evaluated on the basis of net asset value (NAV) per unit, which is reported by the trust operator. The NAV per unit is based on the total net asset value of the fund divided by the number of units outstanding.

Pooled funds

Underlying investments in pooled funds include government bonds, local government bonds, domestic stocks and foreign stocks. Fair value of pooled funds is measured based on NAV as reported by the trust operator.

Life insurance company general accounts

Life insurance company general accounts are the financial assets which the life insurance company guarantees a specified rate of return and principal and they are all classified as Level 2.

Others

Others include loans to employees and leasing receivables, which are classified as Level 3.

Level 3 reconciliation is not disclosed, since the amounts in Level 3 are immaterial.

NTT Group's policy with respect to asset management planning is formulated with the ultimate objective of ensuring the steady disbursement of benefits in future periods. Therefore, the long-term objective of asset management is to secure the total profits deemed necessary to ensure pension financing. To achieve this, NTT Group selects various investments and takes into consideration their expected returns and risks and the correlation among them. NTT Group then sets the target allocation ratio for plan assets and endeavors to maintain that ratio. The target allocation ratios for plan assets are formulated from a mid- to long-term perspective and are reviewed annually. In the event that there is a significant change in the investment environment, NTT Group also reviews the target allocation ratios for plan assets as necessary. The weighted-average target allocation ratios for plan assets for the fiscal years ended March 31, 2016 and 2017 are as follows:

	<u>2016</u>	<u>2017</u>
Domestic bonds	48.6%	55.8%
Domestic stocks	14.9%	15.0%
Foreign bonds	10.0%	6.2%
Foreign stocks	14.4%	10.6%
Life insurance company general accounts	12.1%	12.4%
Total	<u>100.0%</u>	<u>100.0%</u>

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In the fiscal year ended March 31, 2017, with an objective of ensuring more stable pension financing, NTT Group revised the target allocation ratios for plan assets.

Domestic stocks include NTT's and its affiliates' common stock with an aggregate fair value of ¥5,401 million (0.5% of total plan assets) and ¥4,375 million (0.4% of total plan assets) at March 31, 2016 and 2017, respectively.

NTT Group expects to contribute ¥16,531 million to the NTT CDBP in the fiscal year ending March 31, 2018.

The estimated future benefit payments of the NTT CDBP are as follows:

<u>Year ending March 31</u>	<u>Millions of yen</u>
2018	¥ 42,180
2019	44,227
2020	44,996
2021	46,785
2022	48,375
2023-2027	249,111
Total	<u>¥475,674</u>

(c) The Special Accounting Fund for the NTT CDBP

Based on the provisions of the Law to Partially Amend the Japanese Welfare Pension Insurance Law and other legislation, NTT pays contributions set by the Japanese Government every year to the Special Accounting Fund for the NTT CDBP to cover the costs of pension benefits based on the Former Public Corporation Employee Mutual Aid Association Law to cover benefits for the period of service in and prior to June 1956 of employees who retired in July 1956 or later from NTT, Public Corporation, and/or their predecessor government organizations (Ministry of Communications in the area of telecommunications and the Ministry of Telecommunications).

The Special Accounting Fund for the NTT CDBP is a social welfare pension scheme, as are the former NTT Mutual Aid Plan and the current National Plan. It is considered a multi-employer plan and therefore contributions are recognized as expenses when contributions are required. The amounts of contributions were ¥40,028 million, ¥35,916 million and ¥30,801 million for the fiscal years ended March 31, 2015, 2016 and 2017, respectively, and NTT expects such contributions will decrease year by year. In addition, the Special Accounting Fund for the NTT CDBP is a social welfare pension scheme, and because the information required by its accounting standards is limited, additional quantitative information relating to participation in the multi-employer plan is not disclosed.

13. Income taxes:

Total income taxes recognized for the fiscal years ended March 31, 2015, 2016 and 2017 are as follows:

	<u>2015</u>	<u>2016</u>	<u>2017</u>
	Millions of yen		
Income from continuing operations	¥397,349	¥ 354,825	¥468,370
Other comprehensive income (loss) (Note 16)	50,100	(128,200)	43,359
Additional paid-in capital (Note 16)	(34,823)	—	(28,808)
Total income taxes	<u>¥412,626</u>	<u>¥ 226,625</u>	<u>¥482,921</u>

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Substantially all of NTT Group's income before income taxes and equity in earnings (losses) of affiliated companies for all periods presented and the related income tax expenses (benefits) are related to domestic operations. During the fiscal year ended March 31, 2015, NTT and its domestic subsidiaries were subject to a National Corporate Tax of 25.5%, a Corporate Inhabitant Tax of approximately 5% and a deductible Corporate Enterprise Tax of approximately 8%, which in the aggregate resulted in a combined statutory income tax rate of approximately 36%. During the fiscal year ended March 31, 2016, NTT and its domestic subsidiaries were subject to a National Corporate Tax of 24.95%, a Corporate Inhabitant Tax of approximately 4% and a deductible Corporate Enterprise Tax of approximately 6%, which in the aggregate resulted in a combined statutory income tax rate of approximately 33%. During the fiscal year ended March 31, 2017, NTT and its domestic subsidiaries were subject to a National Corporate Tax of 24.43%, a Corporate Inhabitant Tax of approximately 4% and a deductible Corporate Enterprise Tax of approximately 4%, which in the aggregate resulted in a combined statutory income tax rate of approximately 31%. The rate of the Corporate Inhabitant Tax and Corporate Enterprise Tax differs depending on the municipalities.

The "Act on the Partial Revision of the Income Tax Act" and other laws were enacted on March 31, 2015, changing, among other things, the tax rates for fiscal years beginning on or after April 1, 2015. Due to this change, the statutory tax rate applied to the calculation of the amount of deferred tax assets and liabilities in relation to the temporary differences anticipated to be resolved in the fiscal year ended March 31, 2016 and the fiscal years ending March 31, 2017 and thereafter were lowered from approximately 36% to approximately 33% and 32%. As a result, net deferred tax assets decreased by ¥54,357 million, whose effect is included in "Income tax expenses (benefit): Deferred" in the consolidated statements of income. Net income attributable to NTT decreased ¥47,841 million.

The "Act on the Partial Revision of the Income Tax Act" and other laws were enacted on March 29, 2016, changing, among other things, the tax rates for fiscal years beginning on or after April 1, 2016. Due to this change, the statutory tax rate applied to the calculation of the amount of deferred tax assets and liabilities in relation to the temporary differences anticipated to be resolved in the fiscal year ending March 31, 2017 and thereafter were lowered from approximately 32% to approximately 31%. As a result, net deferred tax assets decreased by ¥32,665 million, whose effect is included in "Income tax expenses (benefit): Deferred" in the consolidated statements of income. Net income attributable to NTT decreased ¥23,703 million.

NTT files a consolidated tax return with its wholly owned subsidiaries for National Corporate Tax purposes. The realizable amounts of deferred tax assets related to National Corporate Tax are assessed on the basis of the projected future taxable income of NTT and its wholly owned subsidiaries. As of March 31, 2017, NTT had 81 wholly owned subsidiaries in Japan, including NTT East, NTT West and NTT Communications.

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Reconciliations of the difference between the actual effective income tax rate of NTT Group and the statutory tax rate are as follows:

	Percent of income before income taxes and equity in earnings of affiliated companies		
	2015	2016	2017
Statutory tax rate	35.60%	33.03%	30.83%
Expenses not deductible for tax purposes	0.42	0.23	1.36
Tax credits	(4.54)	(4.19)	(2.73)
Net change in valuation allowance	1.26	(5.82)	13.29
Effect of changes in the enacted tax rates	5.19	2.19	—
Equity in earnings (losses) of affiliated companies	0.11	0.07	0.40
Net effect of Verio Inc.'s worthless stock deduction	—	—	(13.16)
Other	(0.79)	1.18	0.67
Effective tax rate	<u>37.25%</u>	<u>26.69%</u>	<u>30.66%</u>

Significant components of deferred tax assets and liabilities at March 31, 2016 and 2017 are as follows:

	2016	2017
	Millions of yen	
Deferred tax assets:		
Liability for employees' retirement benefits	¥ 531,614	¥ 505,000
Accrued enterprise tax	21,659	14,551
Property, plant, equipment, software and other	358,883	354,481
Compensated absences	76,631	77,275
Accrued bonus	32,771	34,386
Unamortized purchases of leased assets	5,801	4,035
Operating loss carryforwards	198,155	393,703
Accrued liabilities for loyalty programs	34,284	38,645
Deferred revenues regarding "Zutto Kurikoshi" and "Packet Kurikoshi"	15,820	9,235
Investments in affiliates	96,623	91,070
Marketable securities and other investments	16,278	25,715
Accounts receivable, trade	25,927	34,724
Other	147,307	149,529
Total gross deferred tax assets	1,561,753	1,732,349
Less—Valuation allowance	(167,147)	(379,493)
Total deferred tax assets	<u>1,394,606</u>	<u>1,352,856</u>
Deferred tax liabilities:		
Unrealized gains on securities	(46,367)	(51,566)
Investment in subsidiary, principally arising upon issuance of stock	(207,594)	(168,961)
Property, plant, equipment and other	(122,843)	(123,137)
Identifiable intangible assets	(79,232)	(71,770)
Investments in affiliates	(45,038)	(45,527)
Prepaid pension costs	(25,080)	(31,479)
Other	(32,115)	(36,991)
Total gross deferred tax liabilities	(558,269)	(529,431)
Net deferred tax assets	<u>¥ 836,337</u>	<u>¥ 823,425</u>

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The valuation allowance at March 31, 2016 and 2017 mainly related to deferred tax assets of NTT and certain subsidiaries with operating loss carryforwards for tax purposes that are not expected to be realized. The net change in the total valuation allowance for the years ended March 31, 2015, 2016 and 2017 were an increase of ¥6,029 million, a decrease of ¥98,803 million and an increase of ¥212,346 million, respectively.

The impact of change in estimates about the realizability of deferred tax assets included in the net changes in the valuation allowance for the fiscal years ended March 31, 2015, 2016 and 2017 were a decrease of ¥13,362 million, a decrease of ¥90,774 million and a decrease of ¥18,372 million, respectively.

The decrease of ¥90,774 million for the fiscal year ended March 31, 2016 was due primarily to a decrease of ¥43,687 million for regional tax in NTT West related to the improvement of its forecast of future taxable income and a decrease of ¥32,698 million in NTT DOCOMO considering prudent and feasible tax-planning strategies that became available during the year.

On April 1, 2015, NTT America, Inc., a subsidiary of NTT Communications, merged with Verio Inc., a subsidiary of NTT America, Inc., in order to restructure its organization and concentrate its capabilities as a means of strengthening its cloud business. NTT America submitted a Pre-Filing Agreement request to recognize the loss on the shares of Verio Inc. as a deductible for income tax purposes to the Internal Revenue Service (“IRS”). NTT America received an approval from the IRS on July 2016. As a result, existing operating loss carryforwards of \$2,209.4 million (¥234,268 million) were extinguished and NTT Group recognized \$7,182.7 million (¥761,589 million) of new operating loss carryforwards in the fiscal year ended March 31, 2017. The operating loss carryforwards may offset the taxable income of NTT America, Inc. realized from the ordinary course of business through the end of the fiscal year ending March 31, 2036. The transaction resulted in an overall net increase of our deferred tax assets of \$1,896.0 million (¥201,043 million), before valuation allowance.

As of March 31, 2016, NTT Group had recorded \$36.3 million (¥4,099 million) in net deferred tax assets and \$800.0 million (¥90,147 million) as a valuation allowance with respect to the operating loss carryforwards of NTT America, Inc. As of March 31, 2017, NTT Group considered all available positive and negative evidence and recognized \$124.0 million (¥13,914 million) in net deferred tax assets for NTT America, Inc., which is the amount NTT determined to be more likely than not of being realized, and \$2,608.7 million (¥292,676 million) in valuation allowance was recognized with respect to \$6,857.4 million (¥769,339 million) of the operating loss carryforwards.

The following are the positive and negative evidence of NTT America, Inc. that NTT considered in arriving at the conclusion regarding the realizability of the related deferred tax assets.

Positive Evidence

History of three years cumulative income for the fiscal years ended March 31, 2016 and 2017.

Negative Evidence

Limited history of positive income.

Insufficient taxable income level compared with the operating loss carryforwards.

The inherent risk associated with the future forecasted results.

To realize the net deferred tax assets of \$124.0 million (¥13,914 million), NTT America, Inc., will need to generate \$325.3 million of future taxable income.

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The increase in operating loss carryforwards did not have a material effect on NTT Group's results of operations and financial condition. The recorded amount of the valuation allowance is reassessed at the end of each accounting year based on the forecast for taxable income and the realizability of deferred tax assets, which may lead to the recorded amount of the valuation allowance being reduced in the future.

Realization of the deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible and loss carryforwards are utilizable. Management considers the projected future taxable income, tax-planning strategies and scheduled reversal of deferred tax liabilities in making this assessment. Realization of substantially all of our deferred tax assets is dependent upon continued profitability and NTT anticipates that it will continue to generate substantial income. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets, less valuation allowance, will be realized. The amount of such net assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Net deferred tax assets at March 31, 2016 and 2017 are included in the consolidated balance sheets as follows:

	2016	2017
	Millions of yen	
Deferred income taxes (current assets)	¥ 260,446	¥ 228,590
Deferred income taxes (investments and other assets)	746,561	768,871
Other current liabilities	(4,123)	(7,285)
Deferred income taxes (long-term liabilities)	(166,547)	(166,751)
Total	¥ 836,337	¥ 823,425

At March 31, 2017, NTT and certain subsidiaries had operating loss carryforwards for tax purposes of ¥1,177,661 million, which may be used as a deduction in determining taxable income in future periods. The period available to offset future taxable income varies by each tax jurisdiction as follows:

Year ended March 31, 2017	Millions of yen
Within 5 years	¥ 91,391
6 to 20 years	961,603
Indefinite periods	124,667
Total	¥ 1,177,661

At March 31, 2016 and 2017, the amount of unrecognized deferred tax liabilities for the portion of the undistributed earnings of NTT's foreign subsidiaries that are indefinitely reinvested was immaterial.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2016
	Millions of yen
Balance at March 31 2015	¥ 5,754
Increase in tax position of current year	491
Decrease in tax position of prior year	(1,302)
Foreign currency translation adjustments	362
Balance at March 31, 2016	¥ 5,305

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	2017
	Millions of yen
Balance at March 31, 2016	¥ 5,305
Increase in tax position of current year	1,012
Decrease in tax position of prior year	(1,060)
Foreign currency translation adjustments	(199)
Balance at March 31, 2017	¥ 5,058

The unrecognized tax benefit which would favorably affect the effective income tax rate in future periods was ¥5,305 million and ¥5,058 million at March 31, 2016 and 2017, respectively. NTT does not expect any material changes in its accrued liabilities for unrecognized tax benefits in the next 12 months. NTT Group has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of income tax expense (benefit) in the consolidated statements of income. The total amounts of interest and penalties related to unrecognized tax benefits for the fiscal years ended March 31, 2015, 2016 and 2017 were immaterial. As of March 31, 2017, tax inquiries for NTT and its principal subsidiaries for fiscal years ended March 31, 2015 and prior have been completed by the tax authorities.

14. Consumption tax:

Consumption tax payable or receivable is determined based on consumption taxes levied on operating revenues offset by consumption taxes directly incurred by the company when purchasing goods and services. Items in the consolidated statements of income are presented on a net basis of consumption tax.

15. Redeemable noncontrolling interests:

An analysis of the changes for the fiscal years ended March 31, 2015, 2016 and 2017 in Redeemable noncontrolling interests is as follows:

	2015	2016	2017
	Millions of yen		
Balance at beginning of year	¥25,912	¥28,272	¥45,097
Adjustments due to change in fiscal year end of consolidated subsidiaries (Note 2)	—	(419)	—
Balance at beginning of year (as adjusted)	25,912	27,853	45,097
Acquisition of new subsidiaries (Note 25)	—	11,728	—
Comprehensive income (loss)			
Net income	1,090	1,393	1,656
Other comprehensive income (loss)			
Unrealized gain (loss) on securities	—	(1)	—
Foreign currency translation adjustments	1,235	(947)	(1,280)
Cash dividends	—	4	(69)
Transactions with noncontrolling interests	35	5,067	5,415
Balance at end of year	¥28,272	¥45,097	¥50,819

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16. Equity:

Change in NTT's shares of common stock and treasury stock for the fiscal years ended March 31, 2015, 2016 and 2017 are as follows:

	Change in shares	
	Issued shares	Treasury stock
Balance at March 31, 2014	1,136,697,235	26,650,807
Acquisition of treasury stock under resolution of the board of directors	—	51,413,227
Acquisition of treasury stock through purchase of less-than-one-unit shares	—	35,570
Resale of treasury stock to holders of less-than-one-unit shares	—	(1,998)
Balance at March 31, 2015	1,136,697,235	78,097,606
Effect of stock split	1,136,697,235	78,104,609
Acquisition of treasury stock under resolution of the board of directors	—	21,000,000
Acquisition of treasury stock through purchase of less-than-one-unit shares	—	58,082
Resale of treasury stock to holders of less-than-one-unit shares	—	(5,028)
Cancellation of treasury stock under resolution of the board of directors	(177,000,000)	(177,000,000)
Balance at March 31, 2016	2,096,394,470	255,269
Acquisition of treasury stock under resolution of the board of directors	—	80,731,900
Acquisition of treasury stock through purchase of less-than-one-unit shares	—	41,446
Resale of treasury stock to holders of less-than-one-unit shares	—	(1,656)
Balance at March 31, 2017	2,096,394,470	81,026,959

According to the NTT Act, NTT must obtain authorization from the Minister of Internal Affairs and Communications for certain financial matters including (1) certain new share issuance, including shares issuable upon the exercise of stock acquisition rights; (2) any resolution for (i) a change in the Articles of Incorporation, (ii) an appropriation of profits or (iii) any merger or dissolution; and (3) any disposition of major telecommunications trunk lines and equipment or providing mortgages on such properties.

On November 24, 1995, based upon the resolution of the Board of Directors' meeting held on April 28, 1995, NTT capitalized the aggregate amount of ¥15,600 million of its additional paid-in capital to the common stock account and made a free share distribution of 312,000 shares to shareholders of record at September 30, 1995, representing 2% of outstanding shares. Under generally accepted accounting principles in Japan, no accounting entry is required for such a free share distribution. Had the distribution been accounted for entities in the United States, ¥234,624 million would have been transferred from retained earnings to the applicable capital account.

Effective May 1, 2006, the Japanese Companies Act provides that (i) dividends of earnings require approval at a general meeting of shareholders, (ii) interim cash dividends can be distributed upon the approval of the Board of Directors, if the Articles of Incorporation provide for such interim cash dividends, and (iii) an amount equal to at least 10% of the decrease in retained earnings resulting from a dividend payment be appropriated from retained earnings to a legal reserve until such reserve is equal to 25% of capital stock. The legal reserve is available for distribution upon approval at a shareholders' meeting.

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The Japanese Companies Act provides that corporations are able to repurchase their own shares in market transactions by resolution of the Board of Directors so long as their articles of incorporation so prescribe.

On May 13, 2014, the Board of Directors of NTT resolved that NTT would repurchase shares held by untraceable shareholders, as previously announced on September 18, 2013, as treasury stock. Based on this resolution, NTT purchased 413,227 shares of its common stock for ¥2,429 million on May 14, 2014.

On November 7, 2014, the Board of Directors of NTT resolved that NTT may acquire up to 51 million shares of its outstanding common stock at an amount in total not exceeding ¥350 billion from November 10, 2014 through June 30, 2015. Based on this resolution, NTT repurchased 51 million shares of its common stock for a total purchase price of ¥338,117 million between November 2014 and March 2015, and concluded the repurchase of its common stock authorized by Board of Directors' resolution.

On May 15, 2015, the Board of Directors of NTT authorized a two-for-one stock split of its common stock, with a record date of June 30, 2015 and an effective date of July 1, 2015. On July 1, 2015, each share of common stock held by shareholders as of the record date was split into two shares. Per share information for the fiscal years ended March 31, 2014, 2015 and 2016 as well as for the previous fiscal year reflects the impact of the stock split.

On August 5, 2015, the Board of Directors of NTT resolved that NTT may acquire up to 21 million shares of its outstanding common stock for an amount in total not exceeding ¥100 billion from August 6, 2015 through October 30, 2015. Based on this resolution, NTT repurchased 21 million shares of its common stock for a total purchase price of ¥93,589 million between August 2015 and October 2015, and concluded the repurchase of its common stock authorized by Board of Directors' resolution.

On November 6, 2015, the Board of Directors resolved that NTT may cancel 177 million shares currently held as treasury stock on November 13, 2015, and as a result of such cancellation conducted on November 13, 2015, additional paid-in capital decreased by ¥8 million, and retained earnings decreased by ¥590,679 million.

On May 13, 2016, the Board of Directors resolved that NTT may acquire up to 68 million shares of its outstanding common stock for an amount in total not exceeding ¥350 billion from May 16, 2016 through March 31, 2017. Based on this resolution, NTT repurchased 59,038,100 shares of its common stock at ¥267,384 million on June 14, 2016 using the ToSTNeT-3, and concluded the repurchase of its common stock authorized by Board of Directors' resolution.

On December 12, 2016, the Board of Directors resolved that NTT may acquire up to 33 million shares of its outstanding common stock for an amount in total not exceeding ¥150 billion from December 13, 2016 through June 30, 2017. Based on this resolution, NTT repurchased 21,693,800 shares of its common stock for a total purchase price of ¥106,763 million between December 2016 and March 2017. NTT also repurchased 8,893,400 shares of its common stock for a total purchase price of ¥43,235 million in April 2017 and concluded the repurchase of its common stock authorized by Board of Directors' resolution.

The amount of statutory retained earnings of NTT available for the payments of dividends to shareholders as of March 31, 2017 was ¥637,401 million. In accordance with customary practice in Japan, appropriations of retained earnings are not accrued in the financial statements for the period to which they relate but are recorded in the subsequent accounting period after shareholders' approval has been obtained. Retained earnings in the accompanying consolidated financial statements at March 31, 2017 include amounts representing final cash dividends of ¥120,922 million, or ¥60 per share, which were approved at the shareholders' meeting held on June 27, 2017.

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Accumulated other comprehensive income (loss)—

An analysis of the changes for the fiscal years ended March 31, 2016 and 2017 in accumulated other comprehensive income (loss) is shown below:

	<u>Unrealized gain (loss) on securities</u>	<u>Unrealized gain (loss) on derivative instruments</u>	<u>Foreign currency translation adjustments</u>	<u>Pension liability adjustments</u>	<u>Total</u>
	Millions of yen				
Balance at March 31, 2015	¥134,112	¥ (4,809)	¥ 224,432	¥ (85,503)	¥ 268,232
Adjustments due to change in fiscal year end of consolidated subsidiaries (Note 2)	1	(354)	(9,349)	—	(9,702)
Balance at March 31, 2015 (as adjusted) . . .	<u>134,113</u>	<u>(5,163)</u>	<u>215,083</u>	<u>(85,503)</u>	<u>258,530</u>
Other comprehensive income before reclassification	(20,442)	(2,216)	(115,326)	(209,709)	(347,693)
Amounts reclassified from accumulated other comprehensive income	<u>(12,518)</u>	<u>(1,863)</u>	<u>(273)</u>	<u>1,065</u>	<u>(13,589)</u>
Other comprehensive income	<u>(32,960)</u>	<u>(4,079)</u>	<u>(115,599)</u>	<u>(208,644)</u>	<u>(361,282)</u>
Less—Comprehensive income attributable to noncontrolling interests	<u>(8,058)</u>	<u>1,030</u>	<u>(19,569)</u>	<u>(19,100)</u>	<u>(45,697)</u>
Balance at March 31, 2016	<u>¥109,211</u>	<u>¥(10,272)</u>	<u>¥ 119,053</u>	<u>¥(275,047)</u>	<u>¥ (57,055)</u>
	Millions of yen				
	<u>Unrealized gain (loss) on securities</u>	<u>Unrealized gain (loss) on derivative instruments</u>	<u>Foreign currency translation adjustments</u>	<u>Pension liability adjustments</u>	<u>Total</u>
Balance at March 31, 2016	<u>¥109,211</u>	<u>¥(10,272)</u>	<u>¥ 119,053</u>	<u>¥(275,047)</u>	<u>¥ (57,055)</u>
Adjustments due to change in fiscal year end of consolidated subsidiaries (Note 2)	—	107	(1,591)	30	(1,454)
Balance at March 31, 2016 (as adjusted) . . .	<u>109,211</u>	<u>(10,165)</u>	<u>117,462</u>	<u>(275,017)</u>	<u>(58,509)</u>
Other comprehensive income before reclassification	23,617	2,957	(25,168)	78,247	79,653
Amounts reclassified from accumulated other comprehensive income	<u>(11,309)</u>	<u>(2,462)</u>	<u>511</u>	<u>12,787</u>	<u>(473)</u>
Other comprehensive income	<u>12,308</u>	<u>495</u>	<u>(24,657)</u>	<u>91,034</u>	<u>79,180</u>
Less—Comprehensive income attributable to noncontrolling interests	<u>7,236</u>	<u>(1,139)</u>	<u>5,427</u>	<u>7,585</u>	<u>19,109</u>
Balance at March 31, 2017	<u>¥114,283</u>	<u>¥ (8,531)</u>	<u>¥ 87,378</u>	<u>¥(191,568)</u>	<u>¥ 1,562</u>

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The following table provides the change in accumulated other comprehensive income (loss) for the fiscal years ended March 31, 2015, 2016 and 2017:

	2015		
	Pre-tax amount	Tax benefit / (expense)	Net-of-tax amount
		Millions of yen	
Unrealized gain (loss) on securities arising during the period	¥115,793	¥(39,652)	¥ 76,141
Less—Reclassification adjustment for realized (gain) loss included in net income	260	(93)	167
Net change in unrealized gain (loss) on securities	<u>116,053</u>	<u>(39,745)</u>	<u>76,308</u>
Unrealized gain (loss) on derivative instruments arising during the period	¥ 5,103	¥ (612)	¥ 4,491
Less—Reclassification adjustment for realized (gain) loss included in net income	(2,460)	872	(1,588)
Net change in unrealized gain (loss) on derivative instruments	<u>2,643</u>	<u>260</u>	<u>2,903</u>
Foreign currency translation adjustments arising during the period	¥140,542	¥ (7,226)	¥133,316
Less—Reclassification adjustment for realized gain included in net income	(3,453)	—	(3,453)
Net change in foreign currency translation adjustments	<u>137,089</u>	<u>(7,226)</u>	<u>129,863</u>
Pension liability adjustments arising during period	¥ 11,460	¥ (1,452)	¥ 10,008
Less—Reclassification adjustment,			
Amortization of net actuarial loss (gain)	9,446	(2,994)	6,452
Amortization of transition obligation	156	(54)	102
Amortization of prior service cost	(8,971)	2,636	(6,335)
Other	7,668	(1,525)	6,143
Net change in pension liability adjustments	<u>19,759</u>	<u>(3,389)</u>	<u>16,370</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	2016		
	Pre-tax amount	Tax benefit / (expense)	Net-of-tax amount
	Millions of yen		
Unrealized gain (loss) on securities arising during the period	¥ (29,898)	¥ 9,456	¥ (20,442)
Less—Reclassification adjustment for realized (gain) loss included in net income	(18,246)	5,728	(12,518)
Net change in unrealized gain (loss) on securities	<u>(48,144)</u>	<u>15,184</u>	<u>(32,960)</u>
Unrealized gain (loss) on derivative instruments arising during the period	¥ (3,190)	¥ 974	¥ (2,216)
Less—Reclassification adjustment for realized (gain) loss included in net income	(2,767)	904	(1,863)
Net change in unrealized gain (loss) on derivative instruments	<u>(5,957)</u>	<u>1,878</u>	<u>(4,079)</u>
Foreign currency translation adjustments arising during the period	¥(121,478)	¥ 6,152	¥(115,326)
Less—Reclassification adjustment for realized gain included in net income	(273)	—	(273)
Net change in foreign currency translation adjustments	<u>(121,751)</u>	<u>6,152</u>	<u>(115,599)</u>
Pension liability adjustments arising during period	¥(313,433)	¥ 99,143	¥(214,290)
Less—Reclassification adjustment,			
Amortization of net actuarial loss (gain)	10,392	(3,347)	7,045
Amortization of transition obligation	50	(16)	34
Amortization of prior service cost	(8,859)	2,845	(6,014)
Other	(1,780)	6,361	4,581
Net change in pension liability adjustments	<u>(313,630)</u>	<u>104,986</u>	<u>(208,644)</u>

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	2017		
	Pre-tax amount	Tax benefit / (expense)	Net-of-tax amount
	Millions of yen		
Unrealized gain (loss) on securities arising during the period	¥ 32,774	¥ (9,157)	¥ 23,617
Less—Reclassification adjustment for realized (gain) loss included in net income	(16,301)	4,992	(11,309)
Net change in unrealized gain (loss) on securities	<u>16,473</u>	<u>(4,165)</u>	<u>12,308</u>
Unrealized gain (loss) on derivative instruments arising during the period	¥ 4,897	¥ (1,940)	¥ 2,957
Less—Reclassification adjustment for realized (gain) loss included in net income	(3,577)	1,115	(2,462)
Net change in unrealized gain (loss) on derivative instruments	<u>1,320</u>	<u>(825)</u>	<u>495</u>
Foreign currency translation adjustments arising during the period	¥(28,933)	¥ 3,765	¥(25,168)
Less—Reclassification adjustment for realized gain included in net income	776	(265)	511
Net change in foreign currency translation adjustments	<u>(28,157)</u>	<u>3,500</u>	<u>(24,657)</u>
Pension liability adjustments arising during period	¥116,297	¥(36,918)	¥ 79,379
Less—Reclassification adjustment,			
Amortization of net actuarial loss (gain)	26,692	(8,152)	18,540
Amortization of transition obligation	48	(15)	33
Amortization of prior service cost	(8,532)	2,746	(5,786)
Other	(1,602)	470	(1,132)
Net change in pension liability adjustments	<u>132,903</u>	<u>(41,869)</u>	<u>91,034</u>

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Reclassifications out of accumulated other comprehensive income (loss) for the fiscal years ended March 31, 2015, 2016 and 2017 was as follows:

	Amounts reclassified from accumulated other comprehensive income (loss)			Affected line items in consolidated statements of income
	2015	2016	2017	
	Millions of yen			
Unrealized gain (loss) on securities	¥ (62)	¥17,997	¥ 16,248	Other, net
	93	(5,728)	(4,992)	Income tax expense (benefit)
	(198)	249	53	Equity in earnings (losses) of affiliated companies
	<u>¥ (167)</u>	<u>¥12,518</u>	<u>¥ 11,309</u>	Net income
Unrealized gain (loss) on derivative instruments	¥2,494	¥ 2,814	¥ 3,647	Other, net
	(872)	(904)	(1,115)	Income tax expense (benefit)
	(34)	(47)	(70)	Equity in earnings (losses) of affiliated companies
	<u>¥1,588</u>	<u>¥ 1,863</u>	<u>¥ 2,462</u>	Net income
Foreign currency translation adjustments . . .	¥3,453	¥ 273	¥ —	Other, net
	—	—	265	Income tax expense (benefit)
	—	—	(776)	Equity in earnings (losses) of affiliated companies
	<u>¥3,453</u>	<u>¥ 273</u>	<u>¥ (511)</u>	Net income
Pension liability adjustments	¥ (631)	¥(1,583)	¥(18,208)	*
	412	518	5,421	Income tax expense (benefit)
	<u>¥ (219)</u>	<u>(1,065)</u>	<u>(12,787)</u>	Net income
Total	<u>¥4,655</u>	<u>¥13,589</u>	<u>¥ 473</u>	Net income

* Amounts reclassified from pension liability adjustments are included in the computation of net periodic pension cost.

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Equity transactions with noncontrolling interests—

The changes for the fiscal years ended March 31, 2015, 2016 and 2017 in Net income attributable to NTT and Increase in Additional paid in capital as a result of Equity transactions with noncontrolling interests are as follows:

	<u>2015</u>	<u>2016</u>	<u>2017</u>
	Millions of yen		
Net income attributable to NTT	¥518,066	¥737,738	¥800,129
Transfers (to) from the noncontrolling interests:			
Increase in additional paid-in capital attributable to tax effect by NTT			
DOCOMO's share repurchase of its common stock (Note 13)	34,823	—	28,808
Increase (decrease) in additional paid-in capital attributable to change in			
NTT's ownership interest by NTT DOCOMO's share repurchase of			
its common stock	(14,802)	42,150	(45,316)
Other	<u>(2,600)</u>	<u>(13,484)</u>	<u>(2,192)</u>
Total	<u>17,421</u>	<u>28,666</u>	<u>(18,700)</u>
Change from net income attributable to NTT's shareholders and transfers			
from the noncontrolling interests	<u>¥535,487</u>	<u>¥766,404</u>	<u>¥781,429</u>

On August 6, 2014, the Board of Directors of NTT DOCOMO resolved that NTT DOCOMO may acquire up to 206,489,675 shares of its outstanding common stock for an amount in total not exceeding ¥350,000 million from August 7, 2014 through September 3, 2014. Based on this resolution, NTT DOCOMO repurchased a total of 181,530,121 of its shares for an aggregate amount of ¥307,694 million, 176,991,100 shares of which NTT Group sold back to NTT DOCOMO. Due to NTT DOCOMO's repurchase transactions, NTT's ownership interest in NTT DOCOMO decreased from 66.7% to 65.3%. As a result, "Additional paid-in capital" increased by ¥17,520 million in the consolidated balance sheet as of March 31, 2015.

On October 31, 2014, the Board of Directors of NTT DOCOMO resolved that NTT DOCOMO may acquire up to 138,469,879 shares of its outstanding common stock for an amount in total not exceeding ¥192,306 million from November 1, 2014 through March 31, 2015. Based on this resolution, from November 2014 through March 2015, NTT DOCOMO repurchased a total of 83,746,000 shares of its common stock for an aggregate amount of ¥165,342 million. As a result, NTT's ownership interest in NTT DOCOMO increased from 65.3% to 66.7% and "Additional paid-in capital" increased by ¥2,501 million in the consolidated balance sheet as of March 31, 2015.

On February 5, 2016, the Board of Directors of NTT DOCOMO resolved to launch a tender offer to acquire up to 137,578,616 shares of its outstanding common stock from February 8, 2016 through March 7, 2016. Based on this resolution, NTT DOCOMO repurchased a total of 120,867,062 of its shares for an aggregate amount of ¥307,486 million, 117,924,500 shares of which NTT Group sold back to NTT DOCOMO. Due to NTT DOCOMO's repurchase transactions, NTT's ownership interest in NTT DOCOMO decreased from 66.7% to 65.7%. As a result, "Additional paid-in capital" increased by ¥42,150 million in the consolidated balance sheet as of March 31, 2016.

On April 28, 2016, the Board of Directors of NTT DOCOMO resolved that NTT DOCOMO may acquire up to 99,132,938 shares of its outstanding common stock for an amount in total not exceeding ¥192,514 million from May 2, 2016 through December 31, 2016. Based on this resolution, NTT DOCOMO repurchased 9,021,000 shares of its common stock at ¥24,433 million using the ToSTNeT-3 on May 18, 2016, and also repurchased

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47,010,000 shares of its common stock at ¥125,174 million by way of market purchases based on the discretionary dealing contract until December 31, 2016. As a result, NTT's ownership interest in NTT DOCOMO increased from 65.7% to 66.7%. Due primarily to these transactions, "Additional paid-in capital" decreased by ¥16,508 million in the consolidated balance sheet as of March 31, 2017.

17. Fair Value Measurements:

The inputs to valuation techniques used to measure fair value are required to be categorized by fair value hierarchy. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1—Quoted prices for identical assets or liabilities in active markets

Level 2—Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs derived principally from observable market data

Level 3—Unobservable inputs

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2016 and 2017 are as follows:

	2016			
	Fair value measurements using			
	Total	Level 1	Level 2	Level 3
	Millions of yen			
Assets				
Available-for-sale securities:				
Domestic equity securities	¥197,613	¥197,613	¥ —	¥—
Foreign equity securities	131,817	131,817	—	—
Domestic debt securities	49,478	218	49,087	173
Foreign debt securities	37,499	10	37,489	—
Derivatives:				
Forward exchange contracts	2,578	—	2,578	—
Interest rate swap agreements	107	—	107	—
Currency swap agreements	61,703	—	61,703	—
Liabilities				
Derivatives:				
Forward exchange contracts	12,148	—	12,148	—
Interest rate swap agreements	6,110	—	6,110	—
Currency swap agreements	13,838	—	13,838	—
Currency option agreements	¥ 2,414	¥ —	¥ 2,414	¥—

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There were no transfers between Level 1 and Level 2.

Level 3 reconciliation is not disclosed, since the amounts in Level 3 are immaterial.

	2017			
	Fair value measurements using			
	Total	Level 1	Level 2	Level 3
	Millions of yen			
Assets				
Available-for-sale securities:				
Domestic equity securities	¥198,482	¥198,482	¥ —	¥—
Foreign equity securities	135,912	135,912	—	—
Domestic debt securities	59,138	214	58,759	165
Foreign debt securities	38,360	9	38,118	233
Derivatives:				
Forward exchange contracts	1,137	—	1,137	—
Interest rate swap agreements	289	—	289	—
Currency swap agreements	71,930	—	71,930	—
Liabilities				
Derivatives:				
Forward exchange contracts	1,032	—	1,032	—
Interest rate swap agreements	3,938	—	3,938	—
Currency swap agreements	12,555	—	12,555	—
Currency option agreements	¥ 1,336	¥ —	¥ 1,336	¥—

There were no transfers between Level 1 and Level 2.

Level 3 reconciliation is not disclosed, since the amounts in Level 3 are immaterial.

Available-for-sale securities—

Available-for-sale securities comprise marketable equity securities and debt securities. If active market prices are available, fair value is measured by quoted prices for identical assets in active markets, which is classified as Level 1. If active market prices are not available, fair value is measured by inputs derived principally from observable market data provided by financial institutions, which is classified as Level 2. In cases in which fair value is measured by inputs derived from unobservable data, it is classified as Level 3.

Derivatives—

Derivatives comprise forward exchange contracts, interest rate swap agreements, currency swap agreements and currency option agreements. Fair value of derivatives is measured by inputs derived principally from observable market data provided by financial institutions, which is classified as Level 2.

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Assets measured at fair value on a nonrecurring basis for the fiscal years ended March 31, 2016 and 2017 are as follows:

	2016				
	Fair value measurements using				Impairment losses (before tax)
	Total	Level 1	Level 2	Level 3	
Millions of yen					
Assets					
Real estate	¥ 8,398	—	—	¥ 8,398	¥ 810
Cost method investments	2,416	—	—	2,416	4,429
Goodwill	13,438	—	—	13,438	4,719
Long-lived assets and other intangible assets	15,590	—	—	15,590	28,002
	2017				
	Fair value measurements using				Impairment losses (before tax)
	Total	Level 1	Level 2	Level 3	
Millions of yen					
Assets					
Real estate	¥ 7,338	—	—	¥ 7,338	¥ 1,129
Investments in affiliated companies	30,078	1,703	—	28,375	23,920
Cost method investments	1,289	—	—	1,289	3,523
Goodwill	227,871	—	—	227,871	53,294
Long-lived assets and other intangible assets	13,750	—	—	13,750	20,558

Real estate—

If a decline in value or an increase in estimated costs of completion of real estate held for resale included in inventories causes inventory cost to be unrecoverable, the real estate is written down to its fair value. In measuring the fair value of such inventories, fair value is measured by using various evaluation models based on inputs that are unobservable in the market, such as a salable price based on a real-estate appraisal, which is classified as Level 3.

Real estate in the table above includes that transferred from inventories to property, plant and equipment as a result of a change in use or sold to others after measuring fair value.

Investments in affiliated companies—

The fair value of investments in affiliated companies that are impaired as a result of an other than temporary decline in value are measured at fair value mainly based on the discounted cash flow method using unobservable inputs, resulting in a classification of such investments as Level 3 investments. The discount rates for the fiscal year ended March 31, 2017 used for the weighted average cost of capital amounted to 7.9%.

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Cost method investments—

If a decline in value of cost method investments is evaluated as other than temporary, the investment is written down to its fair value. In measuring the fair value of such investments, the fair value is measured by using various evaluation models based on inputs that are unobservable in the market such as discounted cash flow projection, which is classified as Level 3.

Goodwill—

The fair value of the reporting units is determined by using various evaluation models based on inputs that are unobservable in the market such as discounted cash flow projections, which are classified as Level 3. For the fiscal year ended March 31, 2017, the weighted average cost of capital and the permanent growth rate amounted to 10.0% and 2.3%, respectively. Goodwill impairment losses are recorded in the long distance and international communications business segment.

Long-lived assets and other intangible assets—

If the carrying amount of a long-lived asset or other intangible asset is evaluated to be unrecoverable, the long-lived asset or other intangible asset is written down to its fair value. Fair value is principally measured using the discounted cash flow method or appraisal by third parties, which is classified as level 3.

18. Segment and geographic information:

Operating segments are components of the NTT Group 1) that engage in business activities, 2) whose operating results are regularly reviewed by NTT Group's chief operating decision maker to make decisions on the allocation of financial resources and to evaluate business performance, and 3) for which discrete financial information is available. Accounting policies used to determine segment profit/loss and segment assets are consistent with those used to prepare the consolidated financial statements in accordance with accounting principles generally accepted in the United States.

The regional communications business segment principally comprises revenues from fixed voice related services, IP/packet communications services, sales of telecommunications equipment, and other operating revenues.

The long distance and international communications business segment principally comprises revenues from fixed voice related services, IP/packet communications services, system integration services and other operating revenues.

The mobile communications business segment principally comprises revenues from mobile voice related services, IP/packet communications services and sales of telecommunications equipment.

The data communications business segment principally comprises revenues from system integration services.

The other segment principally comprises operating revenues from such activities as building maintenance, real estate rental, systems development, leasing, and research and development.

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Operating revenue:

<u>Year Ended March 31</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
		Millions of yen	
Operating revenue:			
Regional communications business—			
External customers	¥ 3,032,292	¥ 2,908,249	¥ 2,736,664
Intersegment	473,227	499,604	571,542
Total	3,505,519	3,407,853	3,308,206
Long distance and international communications business—			
External customers	1,906,784	2,161,391	2,040,209
Intersegment	91,857	89,532	89,055
Total	1,998,641	2,250,923	2,129,264
Mobile communications business—			
External customers	4,340,317	4,483,666	4,535,829
Intersegment	43,080	43,459	48,723
Total	4,383,397	4,527,125	4,584,552
Data communications business—			
External customers	1,401,348	1,512,842	1,609,163
Intersegment	109,671	103,994	109,558
Total	1,511,019	1,616,836	1,718,721
Other—			
External customers	414,576	474,849	469,151
Intersegment	857,664	819,617	813,120
Total	1,272,240	1,294,466	1,282,271
Elimination	(1,575,499)	(1,556,206)	(1,631,998)
Consolidated total	<u>¥11,095,317</u>	<u>¥11,540,997</u>	<u>¥11,391,016</u>

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Segment profit:

<u>Year Ended March 31</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
		Millions of yen	
Segment profit:			
Regional communications business	¥ 168,860	¥ 264,957	¥ 359,491
Long distance and international communications business	113,568	96,688	40,836
Mobile communications business	635,751	788,362	951,634
Data communications business	86,361	112,739	107,875
Other	67,481	74,042	77,308
Total segment profit	1,072,021	1,336,788	1,537,144
Elimination	12,545	11,361	2,645
Consolidated operating income	1,084,566	1,348,149	1,539,789
Other income	49,408	68,088	65,800
Other expenses	67,345	86,978	77,820
Consolidated income before income taxes and equity in earnings (losses) of affiliated companies	<u>¥1,066,629</u>	<u>¥1,329,259</u>	<u>¥1,527,769</u>
Equity in earnings (losses) of affiliated companies:			
Regional communications business	¥ (59)	¥ 544	¥ 180
Long distance and international communications business	916	46	(7)
Mobile communications business	(14,798)	(8,648)	(15,395)
Data communications business	87	124	(618)
Other	19,743	13,706	15,819
Consolidated total	<u>¥ 5,889</u>	<u>¥ 5,772</u>	<u>¥ (21)</u>

Segment assets:

<u>As of March 31</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
		Millions of yen	
Segment Assets:			
Regional communications business	¥ 7,041,285	¥ 6,995,750	¥ 7,027,689
Long distance and international communications business	2,609,666	2,762,138	2,772,961
Mobile communications business	7,326,360	7,341,102	7,599,619
Data communications business	1,930,349	1,981,578	2,364,387
Other	10,589,357	10,932,317	10,891,660
Total segment assets	29,497,017	30,012,885	30,656,316
Elimination	(8,794,590)	(8,976,954)	(9,405,991)
Consolidated total	<u>¥20,702,427</u>	<u>¥21,035,931</u>	<u>¥21,250,325</u>

- (Note) 1. "Other" segment assets include the shares of subsidiaries owned by NTT.
2. "Elimination" includes offsetting the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary.
3. Goodwill resulting from an acquisition is included in segment assets of the respective business in which the acquired business has been included. See Note 10 for additional details.

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For the fiscal year ended March 31, 2017, total assets in the data communications business segment increased by ¥382,809 million. This is mainly due to the acquisitions of Dell Systems Corporation and other companies and IT services-related assets. See Note 25 for additional details regarding these acquisitions.

Other significant items:

<u>Year Ended March 31</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
		Millions of yen	
Depreciation and amortization:			
Regional communications business	¥ 734,518	¥ 699,686	¥ 586,772
Long distance and international communications business	162,610	177,818	171,670
Mobile communications business	663,344	629,502	455,779
Data communications business	148,927	150,242	155,352
Other	113,814	104,701	89,260
Total segment	1,823,213	1,761,949	1,458,833
Elimination	4,785	4,376	3,402
Consolidated total	<u>¥ 1,827,998</u>	<u>¥ 1,766,325</u>	<u>¥ 1,462,235</u>
Capital investments for segment assets:			
Regional communications business	¥ 666,164	¥ 622,131	¥ 583,358
Long distance and international communications business	197,971	227,564	244,859
Mobile communications business	661,862	595,264	597,078
Data communications business	141,041	134,030	158,140
Other	150,485	108,217	116,592
Consolidated total	<u>¥ 1,817,523</u>	<u>¥ 1,687,206</u>	<u>¥ 1,700,027</u>
Point program expenses:			
Regional communications business	¥ 8,803	¥ 1,757	¥ (467)
Long distance and international communications business	1,335	685	908
Mobile communications business	67,705	57,832	94,291
Consolidated total	<u>¥ 77,843</u>	<u>¥ 60,274</u>	<u>¥ 94,732</u>
Impairment losses—Goodwill:			
Long distance and international communications business	3,464	4,719	53,294
Consolidated total	<u>¥ 3,464</u>	<u>¥ 4,719</u>	<u>¥ 53,294</u>
Impairment losses—Other:			
Regional communications business	1,640	5,237	1,439
Long distance and international communications business	1,732	6,639	12,580
Mobile communications business	30,161	9,187	2,242
Data communications business	2,358	1,620	2,154
Other	2,848	5,319	2,143
Consolidated total	<u>¥ 38,739</u>	<u>¥ 28,002</u>	<u>¥ 20,558</u>

The capital investments in the above table represent the additions to fixed assets of each segment.

For additional details regarding Impairment losses—Goodwill, see Note 10.

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As indicated in Note 7, Impairment losses—Other on Mobile communications business was mainly the impairment for long-lived assets of the multimedia broadcasting business for mobile devices.

As indicated in “Use of estimates” in Note 2, effective July 1, 2014, NTT Group has revised its estimate of the expected useful life of a part of software for telecommunications network and internal-use software based on actual utilization of the software to reflect an extended expected useful life of up to 7 years. As a result, compared with the method used prior to July 1, 2014, operating income for the mobile communications business segment for the fiscal year ended March 31, 2015 increased by ¥51,307 million.

As indicated in “Property, plant and equipment and depreciation” in Note 2, effective April 1, 2016, NTT and its subsidiaries in Japan adopted the straight-line method of depreciation and reviewed the residual carrying amount of property, plant and equipment and made changes where necessary. As a result of the change in depreciation method, segment profit on a consolidated basis for the fiscal year ended March 31, 2017 increased by ¥79,373 million for “Regional communications business,” ¥6,633 million for “Long distance and international communications business,” ¥154,050 million for “Mobile communications business,” and ¥5,072 million for “Other,” decreased by ¥951 million for “Data communications business,” and increased by ¥244,177 million for “Total segment” and “Consolidated total.”

Transfers between operating segments are based on the values that approximate arm’s-length prices. Operating income is operating revenue less costs and operating expenses.

Geographic information:

<u>Year Ended March 31</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
		Millions of yen	
Operating revenue:			
Domestic	¥ 9,509,891	¥ 9,646,185	¥ 9,556,408
Foreign	1,585,426	1,894,812	1,834,608
Consolidated total	<u>¥11,095,317</u>	<u>¥11,540,997</u>	<u>¥11,391,016</u>

Operating Revenues are classified based on the geographic location of the service and products provided. NTT Group has not disclosed foreign long-term assets, as such amounts were immaterial.

There were no operating revenue from transactions with a single external customer amounting to 10% or more of NTT Group’s revenues for the fiscal years ended March 31, 2015, 2016 and 2017.

19. Leases:

NTT Group leases certain office space, employees’ residential facilities and other assets, recorded as either capital leases or operating leases.

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Capital Lease—Lessee—

Assets acquired under capital leases at March 31, 2016 and 2017 are as follows:

<u>Class of property</u>	<u>2016</u>	<u>2017</u>
	Millions of yen	
Buildings	¥ 13,616	¥ 9,484
Machinery, vehicles and tools	79,520	62,430
Accumulated depreciation	(52,971)	(39,032)
Total	<u>¥ 40,165</u>	<u>¥ 32,882</u>

Future minimum lease payments by year under capital leases together with the present value of the net minimum lease payments at March 31, 2017 are as follows:

<u>Year ending March 31</u>	<u>Millions of yen</u>
2018	¥ 16,840
2019	11,598
2020	8,522
2021	5,110
2022	3,181
Thereafter	<u>3,025</u>
Total minimum lease payments	48,276
Less—Amount representing interest	<u>4,409</u>
Present value of net minimum lease payments	43,867
Less—Amounts representing estimated executory costs	<u>3,869</u>
Net minimum lease payments	39,998
Less—Current obligation	<u>14,430</u>
Long-term capital lease obligations	<u>¥ 25,568</u>

Operating Lease—Lessee—

Rental expenses under operating leases for land, buildings and equipment for the fiscal years ended March 31, 2015, 2016 and 2017 were ¥267,544 million, ¥277,016 million and ¥288,038 million, respectively.

Minimum future rental payments under operating leases that have initial or remaining non-cancellable lease terms in excess of one year at March 31, 2017 are as follows.

<u>Year ending March 31</u>	<u>Millions of yen</u>
2018	¥ 41,176
2019	31,700
2020	23,207
2021	17,130
2022	13,236
Thereafter	<u>38,841</u>
Total	<u>¥165,290</u>

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20. Research and development expenses and advertising costs:

Research and development expenses—

Research and development costs are charged to expense as incurred. Research and development expenses amounted to ¥233,752 million, ¥213,435 million and ¥211,616 million for the fiscal years ended March 31, 2015, 2016 and 2017, respectively.

Advertising expenses—

Advertising costs are charged to expense as incurred. Advertising expenses which are included in “Selling, general and administrative expenses” in the consolidated statements of income amounted to ¥101,266 million, ¥96,684 million and ¥95,280 million for the fiscal years ended March 31, 2015, 2016 and 2017, respectively.

21. Foreign currency exchange gain and loss:

Foreign currency exchange results (mainly arising from foreign currency borrowings) for the fiscal years ended March 31, 2015, 2016 and 2017 were a gain of ¥96 million and losses of ¥5,467 million and ¥13,936 million, respectively, and are included in “Other, net” of “Other income (expenses)” in the consolidated statements of income.

22. Financial instruments:

Derivative instruments and, hedging activities—

In the normal course of business, NTT Group has certain financial instruments including long-term debt and other financial assets and liabilities. Such financial instruments are exposed to market risks such as interest rate changes and foreign currency fluctuations. In applying a consistent risk management strategy for the purpose of reducing such risk, NTT Group uses derivative financial instruments, such as forward exchange contracts, interest rate swap agreements, currency swap agreements, currency option agreements and forward contracts. NTT Group does not use derivative financial instruments for trading or speculative purposes.

Foreign Currency Exchange Rate Risk Management—

NTT Group from time to time enters into forward foreign exchange contracts, currency swap agreements and currency option agreements to hedge the risk of fluctuations in foreign currency exchange rates principally associated with long-term debt issued by NTT Group denominated in foreign currencies. Such contracts and agreements have the same maturity as the underlying debt.

Interest Rate Risk Management—

NTT Group’s exposure to market risk for changes in interest rates relates principally to its debt obligations. NTT Group has long-term debt primarily with fixed rates. Interest rate swap agreements are entered into from time to time to convert floating rate underlying debt or assets into fixed rate debt or assets, or vice versa. Interest rate option contracts are entered into from time to time to hedge the risk of a rise in the interest rate of underlying debt. These instruments are executed with creditworthy financial institutions.

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Fair Value Hedges—

The derivatives designated as fair value hedges include interest rate swap agreements that are used for reducing the risk arising from the changes in the fair value of fixed rate debt. As discussed in Note 11, NTT Group issues a variety of long-term debt bearing several types of interest and denominated in several currencies. NTT Group has a strategy to fix the anticipated cash flow related to those debts. From time to time, however, NTT Group enters into pay-floating/receive-fixed interest rate swaps, to protect the fair value of certain fixed rate debts in asset and liability management. NTT Group was not a counterparty to any interest rate swap agreements designated as instruments hedging the changes in fair value as of March 31, 2015, 2016 and 2017. Changes in the fair value of the derivatives that are highly effective as, and that are designated and qualified as, fair value hedges, along with changes in the fair value of the hedged items that are attributable to the hedged risk, are recognized as “Other, net” of “Other income (expenses)” in the consolidated statements of income. Changes in the fair value of the derivatives designated as fair value hedges and the hedged items recognized in the consolidated statements of income for the fiscal years ended March 31, 2015, 2016 and 2017 are as follows:

	2015	
Consolidated statements of income item	Changes in the fair value of the derivatives	Changes in the fair value of the hedged items
	Millions of yen	
Other, net	¥(57) <u> </u>	¥57 <u> </u>
Consolidated statements of income item	2016	
	Changes in the fair value of the derivatives	Changes in the fair value of the hedged items
	Millions of yen	
Other, net	¥— <u> </u>	¥— <u> </u>
Consolidated statements of income item	2017	
	Changes in the fair value of the derivatives	Changes in the fair value of the hedged items
	Millions of yen	
Other, net	¥— <u> </u>	¥— <u> </u>

The amount of ineffectiveness of these fair value hedges, which were reflected in net income, was not material for all periods presented. In addition, there was no amount excluded from the assessment of hedge effectiveness of fair value hedges.

Cash Flow Hedges—

The derivatives designated as cash flow hedges include forward exchange contracts, currency swap agreements and interest rate swap agreements. As discussed in Note 11, NTT Group has foreign currency exposures related to its long-term debt denominated in currencies other than yen. In accordance with NTT Group’s strategy, NTT Group fixes the anticipated cash flows of paying interest and principal amounts by entering into foreign currency contracts and foreign currency swaps, to ensure its cash flows are fixed in yen. Also, as discussed in Note 11, NTT Group has floating rate debt exposures related to its long-term debt. In accordance with NTT Group strategy, NTT Group fixes the anticipated cash flows of interest payment by

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entering into pay-fixed/receive-floating interest rate swaps. Changes in the fair value of derivatives that are highly effective as, and that are designated and qualified as, cash flow hedges are recognized in other comprehensive income (loss), until changes in cash flows from the hedged transactions are recognized as “Other, net” of “Other income (expenses)” in the consolidated statements of income. For all periods presented, these cash flow hedges were effective and the amount representing the ineffectiveness of the hedges was not material. In addition, there was no material amount excluded from the assessment of hedge effectiveness of cash flow hedges.

The notional principal amounts of cash flow hedges at March 31, 2016 and 2017 are as follows:

	<u>2016</u>	<u>2017</u>
	Millions of yen	
Forward exchange contracts	¥ 23,673	¥ 14,842
Interest rate swap agreements	163,911	157,387
Currency swap agreements	<u>290,605</u>	<u>379,929</u>

Changes in the fair value of cash flow hedges recorded in other comprehensive income (loss) for the fiscal years ended March 31, 2016 and 2017 are as follows:

	<u>2016</u>	<u>2017</u>
	Millions of yen	
Forward exchange contracts	¥(1,844)	¥ 476
Interest rate swap agreements	(2,893)	2,453
Currency swap agreements	<u>(2,985)</u>	<u>(1,599)</u>
Total	<u>¥(7,722)</u>	<u>¥ 1,330</u>

Amounts of gain (loss) on cash flow hedges reclassified from accumulated other comprehensive income (loss) into net income for the fiscal years ended March 31, 2015, 2016 and 2017 are as follows:

	<u>Consolidated statements of income item</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
		Millions of yen		
Forward exchange contracts	Other, net	¥ (1,990)	¥ 642	¥ 205
Interest rate swap agreements	Other, net	(1,001)	(1,195)	(1,304)
Currency swap agreements	Other, net	5,485	3,372	4,746
Currency option agreements	Other, net	<u>—</u>	<u>(5)</u>	<u>—</u>
Total		<u>¥ 2,494</u>	<u>¥ 2,814</u>	<u>¥ 3,647</u>

As of March 31, 2017, approximately ¥3,374 million of deferred net income on derivative instruments in accumulated other comprehensive income (loss) is expected to be reclassified as earnings during the next twelve months when the related interest expense is recognized.

Derivatives not designated as hedging instruments—

NTT Group has forward exchange contracts, currency swap agreements, interest rate swap agreements, currency option agreements and forward contracts to hedge market risks such as interest rate changes and foreign currency fluctuations. Some of these derivative financial instruments are not designated as hedging instruments.

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The notional principal amounts of the derivatives not designated as hedging instruments at March 31, 2016 and 2017 are as follows:

	<u>2016</u>	<u>2017</u>
	Millions of yen	
Forward exchange contracts	¥430,949	¥ 89,494
Interest rate swap agreements	33,449	34,145
Currency swap agreements	49,572	203,097
Currency option agreements	63,651	28,937

Changes in the fair value of the derivatives not designated as hedging instruments recorded in the consolidated statements of income for the fiscal years ended March 31, 2015, 2016 and 2017 are as follows:

	<u>Consolidated statements of income item</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
		Millions of yen		
Forward exchange contracts	Other, net	¥(1,613)	¥(1,083)	¥(28,667)
Interest rate swap agreements	Other, net	(432)	215	(99)
Currency swap agreements	Other, net	(1,457)	1,244	15,286
Currency option agreements	Other, net	201	(2,572)	1,079
Forward contracts	Other, net	(145)	145	—
Total		¥(3,446)	¥(2,051)	¥(12,401)

Fair value of financial instruments—

The table that follows provides the estimated fair value of financial instruments. Assets and liabilities with carrying amounts that approximate fair values, such as cash and cash equivalents, notes and accounts receivable, trade, short-term borrowings, accounts payable, trade, and accrued payroll are not included in the table. Fair value information regarding “Marketable securities and other investments” is disclosed in Note 9.

	<u>2016</u>		<u>2017</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
	Millions of yen			
Loans receivable	¥ 268,985	¥ 270,047	¥ 287,790	¥ 288,103
Long-term debt including current portion	¥4,022,980	¥4,165,577	¥3,850,382	¥3,953,632

Loans receivable is mainly included in “Notes and accounts receivable, trade” and “Other assets.”

The carrying amounts of loans receivable with variable interest rates approximate their fair values because such loans receivable reflect market rates in the short term and credit conditions of counterparties do not significantly change after loan executions. The fair values of loans receivable with fixed interest rates are calculated by discounting contractual cash flows using interest rates currently available to the NTT Group for similar transactions, which is classified as Level 2.

The fair values of long-term debt, including the current portion, are measured using discount rates for similar debt instruments of comparable maturities currently offered by NTT Group, which is classified as Level 2.

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The fair values of derivative instruments and amounts recognized in the consolidated balance sheets at March 31, 2016 and 2017 are as follows.

The fair values of derivative instruments are measured by inputs derived principally from observable market data provided by financial institutions.

	2016	2017
	Millions of yen	
Assets		
Derivatives designated as hedging instruments:		
Forward exchange contracts		
Prepaid expenses and other current assets	¥ 224	¥ 640
Other assets	—	18
Interest rate swap agreements		
Other assets	—	289
Currency swap agreements		
Prepaid expenses and other current assets	46	41,142
Other assets	59,914	13,889
Subtotal	60,184	55,978
Derivatives not designated as hedging instruments:		
Forward exchange contracts		
Prepaid expenses and other current assets	2,354	479
Interest rate swap agreements		
Other assets	107	—
Currency swap agreements		
Prepaid expenses and other current assets	1	11,970
Other assets	1,742	4,929
Subtotal	4,204	17,378
Total	¥64,388	¥73,356

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	<u>2016</u>	<u>2017</u>
	Millions of yen	
Liabilities		
Derivatives designated as hedging instruments:		
Forward exchange contracts		
Other (Current liabilities)	¥ 158	¥ 297
Other (Long-term liabilities)	267	77
Interest rate swap agreements		
Other (Current liabilities)	88	15
Other (Long-term liabilities)	5,725	3,633
Currency swap agreements		
Other (Current liabilities)	—	547
Other (Long-term liabilities)	13,336	11,635
Subtotal	<u>19,574</u>	<u>16,204</u>
Derivatives not designated as hedging instruments:		
Forward exchange contracts		
Other (Current liabilities)	11,551	488
Other (Long-term liabilities)	171	170
Interest rate swap agreements		
Other (Current liabilities)	6	39
Other (Long-term liabilities)	292	251
Currency swap agreements		
Other (Current liabilities)	1	52
Other (Long-term liabilities)	501	321
Currency option agreements		
Other (Current liabilities)	604	112
Other (Long-term liabilities)	1,810	1,224
Subtotal	<u>14,936</u>	<u>2,657</u>
Total	<u>¥ 34,510</u>	<u>¥ 18,861</u>

Contingent features in derivative instruments—

At March 31, 2017, NTT Group had no material derivative instruments that contain credit risk-related contingent features which would have a material adverse effect on NTT's consolidated financial position or results of operations.

Concentrations of credit risk—

NTT Group does not have any significant concentration of business transacted with an individual counter-party or groups of counter-parties that could, if suddenly eliminated, severely impact its operations at March 31, 2017.

23. Financing receivables:

NTT Group has certain "Financing receivables" including loans and lease receivables. These financing receivables are mainly held by the financial subsidiaries of NTT. NTT manages these financing receivables by classifying them into "Installment sales receivable," "Lease receivable," "Loans receivable," "Credit receivable" and "Others."

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The allowance for doubtful accounts against financing receivables collectively evaluated for impairment is computed based on each historical bad debt experience. The allowance for doubtful accounts against financing receivables individually evaluated for impairment is computed based on the estimated uncollectible amount based on the analysis of certain individual accounts. In addition, financing receivables that are determined to be uncollectible due to, among other factors, the condition of the debtor are written off at the time of determination.

Rollforward of allowance for credit losses and recorded investment in financing receivables for the fiscal years ended March 31, 2016 and 2017 are as follows:

	2016					
	Installment sales receivable	Lease receivable	Loans receivable	Credit receivable	Others	Total
	Millions of yen					
Allowance for credit losses:						
Balance at March 31, 2015	¥ 5,658	¥ 6,210	¥ 961	¥ 6,920	¥ 4,688	¥ 24,437
Provision	(382)	(409)	390	10,053	(385)	9,267
Charge off	(105)	(1,501)	(411)	(5,969)	—	(7,986)
Recovery	3	59	—	2	—	64
Balance at March 31, 2016	5,174	4,359	940	11,006	4,303	25,782
collectively evaluated for impairment	5,095	1,546	417	11,006	28	18,092
individually evaluated for impairment	79	2,813	523	—	4,275	7,690
Financing receivable:						
Balance at March 31, 2016	1,040,630	412,312	79,455	329,181	10,693	1,872,271
collectively evaluated for impairment	1,040,529	408,734	78,675	329,181	708	1,857,827
individually evaluated for impairment	101	3,578	780	—	9,985	14,444
	2017					
	Installment sales receivable	Lease receivable	Loans receivable	Credit receivable	Others	Total
	Millions of yen					
Allowance for credit losses:						
Balance at March 31, 2016	¥ 5,174	¥ 4,359	¥ 940	¥ 11,006	¥ 4,303	¥ 25,782
Provision	(1,038)	436	19	13,113	5,361	17,891
Charge off	(36)	(724)	(154)	(10,479)	—	(11,393)
Recovery	2	71	—	3	—	76
Balance at March 31, 2017	4,102	4,142	805	13,643	9,664	32,356
collectively evaluated for impairment	4,013	1,457	523	13,643	52	19,688
individually evaluated for impairment	89	2,685	282	—	9,612	12,668
Financing receivable:						
Balance at March 31, 2017	938,413	438,070	96,189	400,093	10,217	1,882,982
collectively evaluated for impairment	938,316	435,122	94,777	400,093	547	1,868,855
individually evaluated for impairment	97	2,948	1,412	—	9,670	14,127

Among financing receivables, the main receivables held by the financial subsidiaries are recognized as being in arrears on the basis of time passed since the payment date. Financing receivables determined to have no prospects for collecting contractual interest on the basis of past due date and other factors do not accrue interest.

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Financing receivables on nonaccrual status at March 31, 2016 and 2017 are as follows:

	2016	2017
	Millions of yen	
Installment sales receivable	¥ 2,132	¥ 1,963
Lease receivable	2,735	2,619
Loans receivable	1,067	1,251
Credit receivable	9,160	12,299
Others	3,570	3,304
Total	<u>¥18,664</u>	<u>¥21,436</u>

NTT Group determines the credit quality of financing receivables on the basis of arrearages of receivables and the conditions of debtors, among other factors. Financing receivables for which arrearages continue over a long period are classified as “nonperforming receivables,” and all other receivables are classified as “performing receivables.” Analysis of the age of the recorded investment in financing receivables at March 31, 2016 and 2017 are as follows:

	2016				
	Performing		Nonperforming		Greater than 90 days and accruing
	Current	1-89 days past due	Greater than 90 days	Total	
	Millions of yen				
Installment sales receivable	¥1,036,342	¥2,149	¥ 2,139	¥1,040,630	¥ 7
Lease receivable	480,481	4,650	2,884	488,015	149
Credit receivable	318,494	1,527	9,160	329,181	—
Others	7,409	7	3,637	11,053	—
Total	<u>¥1,842,726</u>	<u>¥8,333</u>	<u>¥17,820</u>	<u>¥1,868,879</u>	<u>¥156</u>

	2016			
	Performing	Nonperforming		Past due and accruing
	Current	Past due	Total	
	Millions of yen			
Loans receivable	¥271,115	¥1,461	¥272,576	¥—

	2017				
	Performing		Nonperforming		Greater than 90 days and accruing
	Current	1-89 days past due	Greater than 90 days	Total	
	Millions of yen				
Installment sales receivable	¥ 933,579	¥2,868	¥ 1,966	¥ 938,413	¥ 3
Lease receivable	524,262	2,498	2,700	529,460	81
Credit receivable	386,373	1,421	12,299	400,093	—
Others	7,076	4	3,391	10,471	—
Total	<u>¥1,851,290</u>	<u>¥6,791</u>	<u>¥20,356</u>	<u>¥1,878,437</u>	<u>¥ 84</u>

	2017			
	Performing	Nonperforming		Past due and accruing
	Current	Past due	Total	
	Millions of yen			
Loans receivable	¥295,506	¥1,338	¥296,844	¥—

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NTT Group classifies financing receivables as impaired when, based on current information and events, it is probable that NTT Group will be unable to collect all amounts due according to the contractual terms of the loan agreement, and identifies such impaired receivables as “Impaired financing receivables.” Impaired financing receivables at March 31, 2016 and 2017 are as follows:

	2016			Average Recorded Investment
	Recorded Investment	Related Allowance	Unpaid Principal Balance	
	Millions of yen			
With an allowance recorded	¥1,059	¥760	¥1,059	¥1,132
With no related allowance recorded	¥ —	¥—	¥ —	¥ 543
	2017			
	Recorded Investment	Related Allowance	Unpaid Principal Balance	Average Recorded Investment
	Millions of yen			
With an allowance recorded	¥924	¥528	¥924	¥1,327
With no related allowance recorded	¥—	¥—	¥—	¥ —

24. Commitments and contingent liabilities:

Purchase commitments—

The aggregate amount of payments for commitments outstanding at March 31, 2017, including commitments for purchase of property, plant and equipment and other assets is as follows:

Fiscal year ending March 31	Millions of yen
2018	¥ 51,782
2019	60,337
2020	20,513
2021	2,446
2022	1,829
Thereafter	2,421
Total	¥139,328

Loan commitments—

NTT Group provides the cash advance service accompanying credit cards and other loan services. Total outstanding credit lines related to loan commitments of them as of March 31, 2016 and 2017 were ¥230,720 million and ¥249,100 million, respectively.

Credit lines are not necessarily executed to the maximum amount because these contracts contain a clause to lower the credit lines if there are reasonable grounds.

Loans guaranteed, among other things—

Contingent liabilities at March 31, 2016 and 2017 for loans guaranteed, among other things, amounted to ¥79,289 million and ¥75,791 million, respectively.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

At March 31, 2017, NTT Group had no material litigation or claims outstanding, pending or threatened against it, which would be expected to have a material adverse effect on NTT's consolidated financial position or results of operations.

25. Business combinations:

Acquisition of Lux e-shelter 1 S.a.r.l. (“e-shelter”)

On June 22, 2015, NTT Communications acquired 86.7% of the outstanding shares of e-shelter, a German data center services provider, for ¥98,096 million. The acquisition is intended to strengthen NTT's ability to provide global seamless ICT solutions in response to the demand for cloud and data center services in Europe. This business combination has been accounted for by applying the acquisition method. The fair values of the assets acquired and liabilities assumed, as well as the resulting goodwill and redeemable noncontrolling interests recognized as of the acquisition date were ¥130,829 million, ¥91,427 million, ¥70,422 million and ¥11,728 million, respectively.

Certain disclosures such as pro forma information are not provided due to the immateriality of this business combination.

Acquisitions of Dell Systems Corporation and Other Companies and IT Services-Related Businesses

On November 2, 2016 (U.S. time), NTT DATA acquired 100% of the outstanding shares of Dell Systems Corporation, Dell Technology & Solutions Limited, and Dell Services Pte. Ltd., and 100% of the equity interests of U.S. Services L.L.C., from Dell Inc., through three of its subsidiaries including NTT DATA, Inc., and these companies became its consolidated subsidiaries. In addition, NTT DATA acquired Dell Group's IT services-related businesses, mainly located in North America, through three of its subsidiaries including NTT DATA, Inc. (“NTT DATA Services department^{*1}”). The total acquisition cost for these acquisitions was ¥317,179 million in cash.

Through these acquisitions, NTT DATA intends to expand its business in various industries in North America and enhance its cloud services and BPO services using cutting-edge technology.

The costs associated with this acquisition in the amount of ¥4,338 million are included in “Selling, general and administrative expenses” in the consolidated statements of income.

These acquisitions will be recorded in accordance with the acquisition method. However, as neither the identification of identifiable assets and liabilities nor the calculation of fair value had been completed as of the fiscal year ended March 31, 2017, NTT provisionally accounted for the acquisitions on the basis of reasonable information available currently.

*1 “NTT DATA Services department” is the collective term of Dell Systems Corporation, Dell Technology & Solutions Limited, Dell Services Pte. Ltd. and Dell Group's IT services-related businesses.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The provisional amount of assets acquired and liabilities assumed by NTT on the date of acquisitions as follows:

	November 2, 2016
	Millions of yen
Current assets	¥ 52,415
Property, plant and equipment	47,306
Intangible assets and Other	103,443
Total assets acquired	203,164
Current liabilities	21,210
Long-term liabilities	14,446
Total liabilities assumed	35,656
Total net assets acquired	167,508
Goodwill	149,671
Acquisition cost	¥317,179

The recognized goodwill represents a reasonable estimate of the expected synergies of the NTT DATA Services department from its future business expansion and is recorded in the data communications business segment. A portion of the goodwill is expected to be deductible for tax purposes.

Operating revenues and income before income taxes from NTT DATA Services department that were included in the consolidated financial statements for the fiscal year ended March 31, 2017 were ¥70,273 million and ¥760 million, respectively. The results of operation of NTT DATA Services department are consolidated with NTT Group with a two-month lag period. Therefore, the consolidated statements of income for NTT Group for the fiscal year ended March 31, 2017 reflect the results of operation for NTT DATA Services department for the period from the acquisition date to January 31, 2017.

The table below shows unaudited pro forma financial information for NTT Group as adjusted to include NTT DATA Services department as if it had been consolidated from April 1, 2015. NTT Group's operating revenues, income before income taxes, net income attributable to NTT and earnings per share for the fiscal years ended March 31, 2016 and 2017, on an unaudited pro forma basis as adjusted to include NTT DATA Services department, were as follows:

	2016	2017
	Millions of yen	
Operating revenues	¥11,882,318	¥11,615,994
Income before income taxes	¥ 1,335,863	¥ 1,540,903
Net income attributable to NTT	740,133	804,892
Earnings per share (Yen)	351.48	393.27

26. Subsequent events:

For information on NTT's acquisition of treasury stock, see Note 16.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND SUBSIDIARIES**

**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
YEAR ENDED MARCH 31**

	<u>Balance at beginning of period</u>	<u>Additions charged to costs and expenses</u>	<u>Deductions^(*)</u>	<u>Balance at end of period</u>
	Millions of yen			
Fiscal year ended March 31, 2015:				
Allowance for doubtful accounts	¥46,893	¥28,504	¥(32,167)	¥43,230
Fiscal year ended March 31, 2016:				
Allowance for doubtful accounts	¥43,230	¥32,200	¥(30,194)	¥45,236
Fiscal year ended March 31, 2017:				
Allowance for doubtful accounts	¥45,236	¥37,603	¥(34,213)	¥48,626

*1: Primarily amounts written off.

	<u>Balance at beginning of period</u>	<u>Additions^(*)</u>		<u>Deductions^(*)</u>	<u>Balance at end of period</u>
		<u>Charged to income tax expense</u>	<u>Charged to other Accounts</u>		
	Millions of yen				
Fiscal year ended March 31, 2015:					
Valuation allowance—Deferred tax assets	¥259,921	¥ 26,839	¥17,449	¥ (38,259)	¥265,950
Fiscal year ended March 31, 2016:					
Valuation allowance—Deferred tax assets	¥265,950	¥ 9,011	¥ 364	¥(108,178)	¥167,147
Fiscal year ended March 31, 2017:					
Valuation allowance—Deferred tax assets	¥167,147	¥314,539	¥16,510	¥(118,703)	¥379,493

*1: Additions and deductions for the fiscal year ended March 31, 2017 in the table above included an addition of ¥302,491 million and a deduction of ¥90,147 million due to NTT America, Inc.'s merger with Verio Inc., its subsidiary. Please see Note 13 for additional details.

*2: Deductions in the table above mainly consist of changes in estimates of the realizability of deferred tax assets. The amounts of change in estimates of the realizability of deferred tax assets for the years ended March 31, 2015, 2016 and 2017 are presented in Note 13.

Organizational Structure—NTT's Consolidated Subsidiaries as of March 31, 2017

Name	Country of Incorporation	Equity Held by NTT, Directly or Indirectly
<u>Regional Communications Business</u>		
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION . . .	Japan	100.0%
NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION . . .	Japan	100.0%
<u>Long Distance and International Communications Business</u>		
NTT COMMUNICATIONS CORPORATION	Japan	100.0%
Dimension Data Holdings	UK	100.0%
NTT Security Corporation	Japan	100.0%
NTT America	USA	100.0%
NTT EUROPE	UK	100.0%
Lux e-shelter 1	Luxembourg	86.7%
Arkadin International	France	92.7%
RagingWire Data Centers	USA	80.1%
Virtela Technology Services	USA	100.0%
NETMAGIC SOLUTIONS PRIVATE LIMITED	India	81.6%
GYRON INTERNET	UK	100.0%
NTT Plala Inc.	Japan	95.4%
Spectrum Holdings	British Virgin Islands	100.0%
<u>Mobile Communications Business</u>		
NTT DOCOMO, INC.	Japan	66.7%
<u>Data Communications Business</u>		
NTT DATA CORPORATION	Japan	54.2%
NTT DATA	USA	54.2%
NTT DATA Services LLC	USA	54.2%
EVERIS PARTICIPACIONES	Spain	54.2%
NTT Data International	USA	54.2%
<u>Other Business</u>		
NTT URBAN DEVELOPMENT CORPORATION	Japan	67.3%
NTT FINANCE CORPORATION	Japan	97.1%
NTT FACILITIES, INC.	Japan	100.0%
NTT COMWARE CORPORATION	Japan	100.0%
NTT ADVANCED TECHNOLOGY CORPORATION	Japan	100.0%
918 Others	Various	Various

*Note: Percentage of equity held shown represents the equity held by NTT, directly or indirectly, in relation to each of the companies' outstanding shares (excluding treasury stock). Percentages are rounded to the nearest tenth.

CERTIFICATIONS

I, Hiroo Unoura, certify that:

1. I have reviewed this annual report on Form 20-F of Nippon Telegraph and Telephone Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 28, 2017

By: _____ /s/ HIROO UNOURA
Hiroo Unoura
President
Chief Executive Officer

Nippon Telegraph and Telephone Corporation
Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)

Pursuant to the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sections 1350(a) and (b)), the undersigned hereby certifies as follows:

1. I, Hiroo Unoura, am the Chief Executive Officer of Nippon Telegraph and Telephone Corporation (the “Company”);
2. The Company’s annual report on Form 20-F for the fiscal year ended March 31, 2017, accompanying this Certification, in the form filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
3. The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 28, 2017

By: _____ /s/ HIROO UNOURA
Hiroo Unoura
President
Chief Executive Officer

Nippon Telegraph and Telephone Corporation
Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)

Pursuant to the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sections 1350(a) and (b)), the undersigned hereby certifies as follows:

1. I, Jun Sawada, am the Chief Financial Officer of Nippon Telegraph and Telephone Corporation (the “Company”);
2. The Company’s annual report on Form 20-F for the fiscal year ended March 31, 2017, accompanying this Certification, in the form filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
3. The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 28, 2017

By: _____ /s/ JUN SAWADA
Jun Sawada
Senior Executive Vice President
Chief Financial Officer