[Translation]

Quarterly Securities Report

(The First Quarter of the 34th Business Term)
From April 1, 2018 to June 30, 2018

NIPPON TELEGRAPH AND TELEPHONE CORPORATION

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[Note]

This document is an English translation of certain items that were disclosed in NTT's Quarterly Securities Report for the three-month period ended June 30, 2018, which NTT filed on August 8, 2018 with the Financial Services Agency of Japan.

The forward-looking statements and projected figures concerning the future performance of NTT and its subsidiaries and affiliates contained or referred to herein are based on a series of assumptions, projections, estimates, judgments and beliefs of the management of NTT in light of information currently available to it regarding NTT and its subsidiaries and affiliates, the economy and telecommunications industry in Japan and overseas, and other factors. These projections and estimates may be affected by the future business operations of NTT and its subsidiaries and affiliates, the state of the economy in Japan and abroad, possible fluctuations in the securities markets, the pricing of services, the effects of competition, the performance of new products, services and new businesses, changes to laws and regulations affecting the telecommunications industry in Japan and elsewhere, other changes in circumstances that could cause actual results to differ materially from the forecasts contained or referred to herein, as well as other risks included in NTT's most recent Annual Securities Report and in any other materials publicly disclosed by NTT on its websiteon.

[Cover]

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[Filed to]	Director, Kanto Local Finance Bureau
[Filing Date]	August 8, 2018
[Fiscal Year]	The First Quarter of the 34th Business Term (From April 1, 2018 to June 30, 2018)
[Company Name]	Nippon Denshin Denwa Kabushiki Kaisha
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[Place Where Available for Public Inspection]	Tokyo Stock Exchange, Inc. (2-1, Nihombashi Kabutocho, Chuo-ku, Tokyo)

Item 1. Overview of the company

1. Selected Financial Data

IFRS

		Three Months Ended June 30, 2017	Three Months Ended June 30, 2018	Fiscal year ended March 31, 2018
Operating revenues	Millions of yen	2,808,721	2,852,732	11,782,148
Profit before taxes	Millions of yen	527,810	542,651	1,740,479
Profit attributable to NTT	Millions of yen	289,289	289,746	897,887
Comprehensive income (loss) attributable to NTT	Millions of yen	309,380	300,185	950,302
NTT shareholders' equity	Millions of yen	8,765,896	9,124,535	9,062,752
Total assets	Millions of yen	21,233,592	21,466,970	21,541,444
Basic earnings per share attributable to NTT	Yen	144.11	148.05	449.86
Diluted earnings per share attributable to NTT	Yen	-	-	-
Equity ratio (Ratio of NTT Shareholders' Equity to Total Assets)	%	41.3	42.5	42.1
Net cash provided by operating activities	Millions of yen	495,685	431,906	2,541,270
Net cash provided by investing activities	Millions of yen	(573,387)	(545,710)	(1,746,185)
Net cash provided by financing activities	Millions of yen	163,034	15,276	(968,279)
Cash and cash equivalents at end of period	Millions of yen	1,161,652	797,102	895,003

Notes: (1) NTT's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

(2) As NTT prepares condensed consolidated financial statements, changes in the non-consolidated financial data, are not provided.

(3) Operating revenues do not include consumption taxes.

(4) Diluted earnings per share attributable to NTT is not stated because NTT did not have potentially dilutive common shares that were outstanding during the period.

2. Description of Business

The principal business segments of NTT Group (NTT and its affiliated companies) are its regional communications business, long distance and international communications business, mobile communications business, and data communications business.

There were no material changes in NTT Group's business during the three months ended June 30, 2018, nor were there any material changes in its subsidiaries and affiliated companies.

Item 2. Business Overview

1. Risk Factors

There were no risks newly identified during the three months ended June 30, 2018. There was no material change in risk factors which were described in NTT's Annual Securities Report for the fiscal year ended March 31, 2018.

2. Analysis of Consolidated Financial Condition, Results of Operations, and Cash Flows

(1) Consolidated Results

Three-Month Period Ended June 30, 2018 (April 1, 2018 – June 30, 2018)

(Billions of yen)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2018	Change	Percent Change
Operating revenues	2,808.7	2,852.7	44.0	1.6%
Operating expenses	2,284.1	2,315.5	31.4	1.4%
Operating profit	524.7	537.2	12.6	2.4%
Profit before taxes	527.8	542.7	14.8	2.8%
Profit attributable to NTT	289.3	289.7	0.5	0.2%

During the three months ended June 30, 2018, pursuant to its Medium-Term Management Strategy, adopted in May 2015, entitled “Towards the Next Stage 2.0,” NTT implemented measures to embark on a profit growth track by accelerating its self-transformation as a “Value Partner.”

<Efforts to Expand NTT's Global Business and Increase 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.

Specifically, NTT Group promoted cross-selling through collaboration among its group companies, including businesses related to global networks, cloud migration, and IT outsourcing. In addition, in order to support its customers’ “Digital Transformations,” in the field of cloud services, NTT Group expanded the scope of its collaboration with the U.S. company VMware, Inc. and worked to centralize the development and operations of the services of Dimension Data and NTT Communications by transferring the cloud IaaS business from Dimension Data to NTT Communications.

Furthermore, NTT Group established working groups, with a particular focus on the NTT Group level, to work on the planning for its global business competitiveness in the future.

<Efforts to Optimize Domestic Network Businesses and Enhance Profitability>

NTT Group continued working to enhance profitability by creating high value-added services as well as optimizing capital investments and reducing costs for its domestic network businesses, and worked to improve the efficiency of its facility use and reduce procurement costs, in addition to simplifying and streamlining its network systems.

In the regional communications business segment, NTT promoted initiatives for its “Hikari Collaboration Model” and subscriptions for Hikari access services for the “Hikari Collaboration Model” reached 11.62 million. In the mobile communications business segment, the number of subscriptions under the “docomo with” billing plan, a discount monthly plan for customers who use one device for a long period of time, increased to over 2.00 million. In addition, NTT worked to continuously improve returns to long-term customers through enhanced billing plans and sustainably enhance its profitabilityby, among other initiatives, launching “Basic Sharepack” and “Basic Pack,” which are intended to be easy to use even for customers with low data usage, and which provide for a four-level fixed-price charge depending on the amount of data actually used.

<Efforts to Achieve Sustainable Increases in Corporate Value >

We are supporting the communications services field as a Gold Partner (Telecommunications Services) for the Olympic and Paralympic Games Tokyo 2020, and we see the initiative to bring about Society 5.0 (the creation of a new smart society that helps resolve social issues), which is being promoted through public-private partnerships, as a great opportunity to utilize NTT’s collective strength. We have further accelerated the transition to the B2B2X model and strengthened initiatives with businesses in other fields and local governments to create services that will be inherited by the next generation.

Specifically, NTT collaborated with Mitsubishi Heavy Industries, Ltd. to jointly develop, commercialize and release for sale the cybersecurity technology “InteRSePT®” for control systems, including critical infrastructure (social infrastructure). This contributes to safe and secure systems operations by making it possible to detect and respond to anomalies with respect to unknown cyberattacks. In addition, NTT succeeded in using 5G technology in wireless communications experiments in ultra-high-speed mobile environments of over 300km/h, and in 4K video transmission experiments at sea, and going forward, will continue to work with partner companies and promote initiatives that use 5G in a wide range of environments.

As a result of these efforts, NTT Group's consolidated operating revenues for the three-month period ended June 30, 2018 were ¥2852.7 billion (an increase of 1.6% from the same period of the previous fiscal year), consolidated operating expenses were ¥2,315.5 billion (an increase of 1.4% from the same period of the previous fiscal year), consolidated operating profit was ¥537.2 billion (an increase of 2.4% from the same period of the previous fiscal year), profit before taxes was ¥542.7 billion (an increase of 2.8% from the same period of the previous fiscal year), and profit attributable to NTT was ¥289.7 billion (an increase of 0.2% from the same period of the previous fiscal year).

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

(2) Segment Results

NTT Group has five business segments: regional communications business, long distance and international communications business, mobile communications business, data communications business and other business.

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

The long distance and international communications business segment 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 services related to building maintenance, real estate rental, systems development, leasing, and other services related to research and development.

Results by business segment are as follows (intersegment revenues are included in the operating revenues, operating expenses and operating profit of operational results for each business segment):

Regional Communications Business Segment

Three-Month Period Ended Juner 30, 2018 (April 1, 2018 – June 30, 2018)

(Billions of yen)

	Three Months Ended June 30, 2017	**Three Months Ended June 30, 2018**	**Change**	**Percent Change**
Operating revenues	786.7	768.9	(17.8)	(2.3)%
Fixed voice related services	288.5	274.0	(14.5)	(5.0)%
IP/packet communications services	379.5	374.4	(5.2)	(1.4)%
System integration services	28.4	27.6	(0.7)	(2.5)%
Other services	90.4	92.9	2.5	2.8%
Operating expenses	635.4	626.9	(8.5)	(1.3)%
Operating profit	151.3	142.0	(9.3)	(6.1)%

Operating revenues in the regional communications business segment for the three-month period ended June 30, 2018 decreased 2.3% from the same period of the previous fiscal year to ¥768.9 billion due to, among other things, a decrease in fixed voice related services revenues. On the other hand, operating expenses for the three-month period ended June 30, 2018 decreased 1.3% from the same period of the previous fiscal year to ¥626.9 billion due to a decrease in personnel expenses, among other factors. As a result, segment operating profit for the three-month period ended June 30, 2018 decreased 6.1% from the same period of the previous fiscal year to ¥142.0 billion.

Number of subscriptions

(Thousands of subscriber lines/subscriptions)

Service	**As of March 31, 2018**	**As of June 30, 2018**	**Change**	**Percent Change**
(NTT East)				
Telephone Subscriber Lines	8,707	8,542	(164)	(1.9)%
INS-Net	1,188	1,160	(28)	(2.3)%
FLET'S Hikari (including Hikari Collaboration Model)	11,491	11,613	121	1.1%
FLET'S ADSL	342	315	(27)	(8.0)%

Service	As of March 31, 2018	As of June 30, 2018	Change	Percent Change
Hikari Denwa (thousand channels)	9,558	9,610	52	0.5%
FLET'S TV Transmission Services	992	1,001	9	0.9%
(NTT West)				
Telephone Subscriber Lines	8,832	8,664	(167)	(1.9)%
INS-Net	1,143	1,117	(26)	(2.3)%
FLET'S Hikari (including Hikari Collaboration Model)	9,041	9,107	66	0.7%
FLET'S ADSL	438	420	(18)	(4.1)%
Hikari Denwa (thousand channels)	8,474	8,482	8	0.1%
FLET'S TV Transmission Services	624	637	13	2.2%

Notes: (1) Number of Telephone Subscriber Lines is the total of individual lines and central station lines (Subscriber Telephone Light Plan is included).

(2) “INS-Net” includes “INS-Net 64” and “INS-Net 1500.” 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 (including subscriptions to the “INS-Net 64 Lite Plan”).

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

(4) Numbers of subscribers for “Hikari Denwa” and “FLET'S TV Transmission Services” include wholesale services provided to service providers by NTT East and NTT West.

Long Distance and International Communications Business Segment

Three-Month Period Ended June 30, 2018 (April 1, 2018 – June 30, 2018)

(Billions of yen)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2018	Change	Percent Change
Operating revenues	533.4	541.2	7.8	1.5%
Fixed voice related services	60.4	55.7	(4.7)	(7.8)%
IP/packet communications services	99.8	106.0	6.2	6.2%
System integration services	325.5	338.6	13.2	4.0%
Other services	47.7	40.9	(6.8)	(14.2)%
Operating expenses	492.3	509.1	16.8	3.4%
Operating profit	41.1	32.0	(9.0)	(22.0)%

Operating revenues in the long distance and international communications business segment for the three-month period ended June 30, 2018 increased 1.5% from the same period of the previous fiscal year to ¥541.2 billion. This increase was due to, among other things, an increase in system integration revenues due to an expansion in overseas business and an increase in IP/packet communications services revenues due to the expansion of “Arcstar Universal One” and other services, partially offset by a decrease in fixed voice related revenues. On the other hand, operating expenses for the three-month period ended June 30, 2018 increased 3.4% from the same period of the previous fiscal year to ¥509.1 billion due to an increase in personnel expenses, among other things. As a result, segment operating profit for the three-month period ended June 30, 2018 decreased 22.0% from the same period of the previous fiscal year to ¥32.0 billion.

Number of Subscriptions

(Thousands of subscriptions)

Service	As of March 31, 2018	As of June 31, 2018	Change	Percent Change
OCN (ISP)	7,521	7,458	(63)	(0.8)%
Plala (ISP)	3,145	3,155	9	0.3%
Hikari TV	3,016	3,010	(6)	(0.2)%

Mobile Communications Business Segment

Three-Month Period Ended June 30, 2018 (April 1, 2018 – June 30, 2018)

(Billions of yen)

	Three Months Ended June 30, 2017	Three Months Ended June 31, 2018	Change	Percent Change
Operating revenues	1,133.6	1,176.7	43.1	3.8%
Mobile voice related services	229.7	236.9	7.3	3.2%
IP/packet communications services	533.5	544.6	11.2	2.1%
Other services	370.5	395.1	24.6	6.6%
Operating expenses	851.5	866.7	15.3	1.8%
Operating profit	282.1	309.9	27.8	9.9%

Operating revenues for the mobile communications business segment for the three-month period ended June 30, 2018 increased 3.8% from the same period of the previous fiscal year to ¥1,176.7 billion due to an increase in IP/packet communications revenues resulting from the expansion of “Kake-hodai & Pake-aeru” and “docomo Hikari.” On the other hand, operating expenses for the three-month period ended June 30, 2018 increased 1.8% from the same period of the previous fiscal year to ¥866.7 billion due to an increase in revenue-linked expenses in “docomo Hikari,” among other factors. As a result, segment operating profit for the three-month period ended June 30, 2018 increased 9.9% from the same period of the previous fiscal year to ¥309.9 billion.

Number of subscriptions

(Thousands of subscriptions)

Service	As of March 31, 2018	As of June 30, 2018	Change	Percent Change
Mobile Telecommunications Services	76,370	76,746	376	0.5%
(incl.) "Kake-hodai & Pake-aeru" billing plan	41,964	42,926	962	2.3%
Telecommunications Services (LTE (Xi))	50,097	51,344	1,246	2.5%
Telecommunications Services (FOMA (3G))	26,273	25,402	(871)	(3.3)%
sp-mode	38,998	39,638	640	1.6%
i-mode	12,111	11,375	(736)	(6.1)%

Note: Number of Mobile Telecommunications Services (including "Telecommunications Services (LTE (Xi))" and "Telecommunications Services (FOMA (3G))") includes Communication Module Services.

Data Communications Business Segment

Three-Month Period Ended June 30, 2018 (April 1, 2018 – June 30, 2018)

(Billions of yen)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2018	Change	Percent Change
Operating revenues	472.1	505.2	33.2	7.0%
Operating expenses	445.7	476.0	30.3	6.8%
Operating profit	26.4	29.3	2.9	11.0%

Operating revenues in the data communications business segment for the three-month period ended June 30, 2018 increased 7.0% from the same period of the previous fiscal year to ¥505.2 billion due to, among other things, the expansion of the scope of business in the public/social infrastructure and enterprise and solutions fields domestically, and the expansion of business overseas, especially in EMEA and Latin America.

On the other hand, operating expenses for the three-month period ended June 30, 2018 increased 6.8% from the same period of the previous fiscal year to ¥476.0 billion due to, among other things, the impact of an increase in revenue-linked expenses. As a result, segment operating profit for the three-month period ended June 30, 2018 increased 11.0% from the same period of the previous fiscal year to ¥29.3 billion.

Other Business Segment

Three-Month Period Ended June 30, 2018 (April 1, 2018 – June 30, 2018)

(Billions of yen)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2018	Change	Percent Change
Operating revenues	274.8	267.2	(7.6)	(2.7)%
Operating expenses	246.3	241.2	(5.1)	(2.1)%
Operating profit	28.5	26.0	(2.5)	(8.7)%

Operating revenues in the other business segment for the three-month period ended June 30, 2018 decreased 2.7% from the same period of the previous fiscal year to ¥267.2 billion due to a decrease in revenues of NTT Group's real estate business, among other things. On the other hand, operating expenses for the three-month period ended June 30, 2018 decreased 2.1% from the same period of the previous fiscal year to ¥241.2 billion due to, among other things, a decrease in revenue-linked expenses in NTT Group's real estate business. As a result, segment operating profit for the three-month period ended June 30, 2018 decreased 8.7% from the same period of the previous fiscal year to ¥26.0 billion.

(3) Cash Flows

Cash flows provided by operating activities, excluding the effect of non-business days, for the three-month period ended June 30, 2018 decreased by ¥61.2 billion (12.3%) from the same period of the previous fiscal year to ¥434.5 billion. This decrease was due to, among other factors, a decrease in collection of trade receivables. Cash flows provided by operating activities for the three-month period ended June 30, 2018 was ¥431.9 billion.

Cash flows used in investing activities decreased by ¥27.7 billion (4.8%) from the same period of the previous fiscal year to ¥545.7 billion. This decrease was due to, among other factors, a decrease in capital investments.

Cash flows provided by financing activities decreased by ¥147.8 billion (90.6%) from the same period of the previous fiscal year to ¥15.3 billion. This decrease was due to, among other factors, an increase in purchase of treasury stock.

As a result of the above, NTT Group's consolidated cash and cash equivalents, excluding the effect of non-business days, as of June 30, 2018 was ¥1,031.6 billion, a decrease of ¥95.3 billion (8.5%) from the end of the previous fiscal year. Cash and cash equivalents as of June 30, 2018 was ¥797.1 billion.

(Billions of yen)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2018	Change	Percent Change
Cash flows provided by operating activities		431.9	(63.8)	(12.9)%
Cash flows provided by operating activities (excluding the effect of non-business days[1])	495.7	434.5	(61.2)	(12.3)%
Cash flows used in investing activities	(573.4)	(545.7)	27.7	4.8%
Cash flows provided by financing activities	163.0	15.3	(147.8)	(90.6)%
Cash and cash equivalents		797.1	(364.6)	(31.4)%
Cash and cash equivalents (excluding the effect of non-business days[2])	1,161.7	1,031.6	(130.0)	(11.2)%

Note: (1) Effect in the amount of ¥2.6 billion, caused by the last day of the year ended March 31, 2018 and the three months ended June 30, 2018 falling on non-business days, resulting in the due date for certain bills, including telecommunication services bills, being set to the first business day of the following month.

(2) Effect in the amount of ¥234.5 billion, caused by the last day of the three months ended June 30, 2018 falling on a non-business day, resulting in the due date for certain bills, including telecommunication services bills, being set to the first business day of the following month.

(4) Operational and Finance Issues Facing the Corporate Group

There were no material changes in the operational and finance issues facing the corporate group for the three months ended June 30, 2018, and no new additional issues arose during the period.

(5) Research and Development

NTT's research and development expenses for the three months ended June 30, 2018 were ¥46.8 billion. There were no material changes in NTT's research and development activities during the three months ended June 30, 2018.

3. Material Contracts

There were no material contracts relating to NTT's operations that were agreed upon or entered into during the three months ended June 30, 2018.

Item 3. Information on NTT

1. Information on NTT's Shares

(1) Total Number of Shares

Total Number of Shares

Class	Total Number of Shares Authorized to be Issued (shares)
Common stock	6,192,920,900
Total	6,192,920,900

Issued Shares

Class	Number of Shares Issued as of June 30, 2018 (shares)	Number of Shares Issued as of the Filing Date (shares) (August 8, 2018)	Stock Exchange on which the Company is Listed	Description
Common Stock	2,096,394,470	2,096,394,470	Tokyo Stock Exchange (The First Section)	The number of shares per one unit of shares is 100 shares
Total	2,096,394,470	2,096,394,470	―	―

Notes: Pursuant to the Board of Directors' resolution on February 21, 2018, NTT acquired 29,178,000 shares of its outstanding common stock between March 5, 2018 and May 23, 2018.

(2) Information on Share Acquisition Rights

(ⅰ) Description of Stock Option System

Not applicable.

(ⅱ) Information on Shareholder Rights Plans

Not applicable.

(3) Information on Moving Strike Convertible Bonds

Not applicable.

(4) Changes in the Total Number of Issued Shares, the Amount of Common Stock, and Other

Date	Changes in the total number of issued shares (shares)	Balance of the total number of issued shares (shares)	Changes in Common Stock (millions of yen)	Balance of Common Stock (millions of yen)	Change in Capital Reserve (millions of yen)	Balance of Capital Reserve (millions of yen)
April 1, 2018 - June 30, 2018	—	2,096,394,470	—	937,950	—	2,672,826

(5) Major Shareholders

Not applicable for the three months ended June 30, 2018.

(6) Information on Voting Rights

Issued Shares

As of June 30, 2018

Classification	Number of Shares (shares)	Number of Voting Rights	Description
Shares without Voting Rights	—	—	—
Shares with Restricted Voting Rights (treasury stock, etc.)	—	—	—
Shares with Restricted Voting Rights (others)	—	—	—
Shares with Full Voting Rights (treasury stock, etc.)	(treasury stock) 146,103,000 shares of common stock (others) 36,800 shares of common stock	—	—
Shares with Full Voting Rights (others)	1,947,702,200 shares of common stock	19,477,016	—
Shares Representing Less than One Unit	2,552,470 shares of common stock	—	—
Number of Issued Shares	2,096,394,470 shares of common stock	—	—
Total Number of Voting Rights	—	19,477,016	—

Notes: (1) Others in "Shares with Full Voting Rights (treasury stock, etc.)" means stock for which the exercise of voting rights are limited pursuant to Article 308 of the Companies Act of Japan.

(2) The total number of shares in "Shares with Full Voting Rights (others)" includes 28,900 shares held in the name of the Japan Securities Depository Center, and the number of shares in "Shares Representing Less Than One Unit" includes 44 shares held in the name of the Japan Securities Depository Center. "Number of Voting Rights" includes 289 voting rights associated with "Shares with Full Voting Rights" held in the name of the Japan Securities Depository Center, and does not include 6 voting rights associated with "Shares with Full Voting Rights" recorded on the shareholder register under NTT, but not actually owned by NTT.

Treasury Stock

As of June 30, 2018

Name of Shareholder	Address	Number of Shares Held Under Own Name (shares)	Number of Shares Held Under the Names of Others (shares)	Total Shares Held (shares)	Ownership Percentage to the Total Number of Issued Shares
(treasury stock) Nippon Telegraph and Telephone Corporation	5-1, Otemachi 1-chome, Chiyoda-ku, Tokyo	146,103,000	—	146,103,000	7.0%
(others) Nihon Meccs Corporation	6-3, Irifune 3-chome, Chuo-ku, Tokyo	36,800	—	36,800	0.0%
Total	—	146,139,800	—	146,139,800	7.0%

Notes: (1) Others in "Name of Shareholder" means stock for which the exercise of voting rights are limited pursuant to Article 308 of the Companies Act of Japan.

(2) In addition to the above, there are 600 shares that are recorded on the shareholder register under NTT, but not actually owned by NTT. Such shares are included in "Shares with Full Voting Rights (others)" under "Issued Shares".

(3) Pursuant to the Board of Directors' resolution on February21, 2018, NTT acquired 29,178,000 shares of its outstanding common stock between March5, 2018 and May23, 2018. For details, please see "Note 10. Equity and Other Equity Items" under "Condensed Consolidated Financial Statements" of "4. Financial Information".

2. Changes in Directors and Senior Management

Not applicable.

Item 4. Financial Information

1. Basis of Preparation of Condensed Quarterly Consolidated Financial Statements

In accordance with Article 93 of the "Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements" (Cabinet Office Ordinance No. 64 of 2007) (the "Ordinance on Consolidated Financial Statements"), NTT Group prepares condensed quarterly consolidated financial statements pursuant to International Accounting Standard ("IAS") No. 34, "Interim Financial Reporting."

2. Auditor's Report

In accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan, NTT Group's condensed quarterly consolidated financial statements for the first quarter of the consolidated accounting period (from April 1, 2018 to June 30, 2018) have been audited by KPMG AZSA LLC.

3. Special Measures to Ensure the Appropriateness of the Consolidated Financial Statements

NTT Group undertakes special measures to ensure the appropriateness of its consolidated financial statements and put in place a structure to properly disclose consolidated financial statements in accordance with IFRS. The details of such measures are below:

(1) NTT Group participates in organizations such as the Financial Accounting Standards Foundation in order to put in place a system in which NTT Group can ensure it has an appropriate grasp on the contents of accounting standards and can accurately respond to changes in accounting standards. In addition, NTT Group periodically undertakes reviews of accounting standards, and maintains internal regulations.

(2) With respect to the application of IFRS, NTT Group obtains press releases and statements of accounting principles published by the International Accounting Standards Board from time to time in order to gain an understanding of most recent standards. Furthermore, in order to prepare appropriate consolidated financial statements in accordance with IFRS, NTT Group has developed group accounting policies and accounting guidelines in compliance with IFRS, and conducts its accounting in accordance with those policies and guidelines.

1. 【Condensed Consolidated Financial Statements】

(1) 【Condensed Consolidated Statement of Financial Position】

		Millions of yen		
	Notes	Date of Transition to IFRS (April 1, 2017)	March 31, 2018	June 30, 2018
ASSETS				
Current assets				
Cash and cash equivalents	7	¥1,075,773	¥895,003	¥797,102
Trade and other receivables	7	3,623,577	4,022,227	3,823,743
Other financial assets	12	167,410	123,344	127,630
Inventories		326,718	354,181	357,536
Other current assets		383,506	474,405	596,312
Total current assets		5,576,984	5,869,160	5,702,323
Non-current assets				
Property, plant and equipment	8	8,719,755	8,812,174	8,820,674
Goodwill		881,292	841,283	939,119
Intangible assets		1,609,598	1,589,448	1,594,823
Investment property		992,317	1,002,301	985,078
Investments accounted for using equity method		528,981	539,342	530,907
Other financial assets	12	1,010,546	1,068,799	1,117,508
Deferred tax assets		1,243,283	1,173,946	1,130,308
Other non-current assets		660,971	644,991	646,230
Total non-current assets		15,646,743	15,672,284	15,764,647
Total assets		¥21,223,727	¥21,541,444	¥21,466,970

	Notes	Date of Transition to IFRS (April 1, 2017)	March 31, 2018	June 30, 2018
		Millions of yen		
LIABILITIES AND EQUITY				
Current liabilities				
Short-term debt	9,12	¥1,079,243	¥1,017,744	¥1,566,385
Trade and other payables		1,797,544	1,811,723	1,510,617
Other financial liabilities	12	45,727	50,711	41,183
Accrued payroll		450,360	455,007	386,337
Accrued taxes on income		233,817	240,670	110,941
Other current liabilities		958,862	1,046,582	1,002,718
Total current liabilities		4,565,553	4,622,437	4,618,181
Non-current liabilities				
Long-term debt	9,12	3,179,645	2,953,855	2,793,086
Other financial liabilities	12	201,789	190,356	176,191
Defined benefit liabilities		1,876,845	1,860,524	1,864,437
Deferred tax liabilities		99,038	74,095	71,657
Other non-current liabilities		258,428	274,523	279,373
Total non-current liabilities		5,615,745	5,353,353	5,184,744
Total liabilities		10,181,298	9,975,790	9,802,925
Equity				
Nippon Telegraph and Telephone Corporation ("NTT") shareholders' equity				
Common stock	10	937,950	937,950	937,950
Additional paid-in capital	10	2,410,572	2,396,555	2,398,202
Retained earnings	10	5,480,639	6,138,351	6,294,476
Treasury stock	10	(375,223)	(610,742)	(718,766)
Other components of equity	10	179,453	200,638	212,673
Total NTT shareholders' equity		8,633,391	9,062,752	9,124,535
Non-controlling interests		2,409,038	2,502,902	2,539,510
Total equity		11,042,429	11,565,654	11,664,045
Total liabilities and equity		¥21,223,727	¥21,541,444	¥21,466,970

(2) 【Condensed Consolidated Statement of Profit or Loss and Condensed Consolidated Statement of Comprehensive Income】

【Condensed Consolidated Statement of Profit or Loss】

【Three Months Period Ended June 30】

		Millions of yen except per share data	
	Notes	2017	2018
Operating revenues	11	¥2,808,721	¥2,852,732
Operating expenses			
Personnel expenses		591,614	592,119
Expenses for purchase of goods and services and other expenses		1,305,921	1,341,798
Depreciation and amortization		330,951	325,490
Expenses on disposal of fixed assets		27,299	26,773
Taxes and dues		28,278	29,326
Total operating expenses		2,284,063	2,315,506
Operating profit		524,658	537,226
Finance income		27,149	7,714
Finance costs		27,002	8,425
Share of profit (loss) of entities accounted for using equity method		3,005	6,136
Profit before tax		527,810	542,651
Income taxes		162,242	167,296
Profit		365,568	375,355
Profit attributable to			
NTT		289,289	289,746
Non-controlling interests		76,279	85,609
Profit		365,568	375,355
Earnings per share attributable to NTT			
Basic earnings per share (yen)		¥144.11	¥148.05

【Condensed Consolidated Statement of Comprehensive Income】

【Three Months Period Ended June 30】

	Notes	2017	2018
		Millions of yen	
Profit		¥365,568	¥375,355
Other comprehensive income (net of tax)	10		
Items that will not be reclassified to profit or loss			
Change in the fair value of financial assets measured at fair value through other comprehensive income		−	10,635
Equity interests relating to Other comprehensive income from equity affiliates		(55)	8,645
Remeasurements of defined benefit plans		(221)	55
Total of items that will not be reclassified to profit or loss		(276)	19,335
Items that may be reclassified to profit or loss			
Unrealized gains (loss) on securities		2,664	−
Cash flow hedges		2,116	570
Foreign currency translation adjustments		26,349	15,927
Share of other comprehensive income of affiliated companies accounted for by the equity method		(3,954)	(13,323)
Total of items that may be reclassified to profit or loss		27,175	3,174
Total other comprehensive income (net of tax)		26,899	22,509
Total comprehensive income		392,467	397,864
Comprehensive income attributable to			
NTT	10	309,380	300,185
Non-controlling interests	10	83,087	97,679
Total comprehensive income		¥392,467	¥397,864

(3)【Condensed Consolidated Statement of Changes in Equity】

【Three Months Period Ended June 30, 2017】

		Millions of yen							
		NTT Shareholders' Equity							
	Notes	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Other components of equity	Total	Non-controlling interests	Total equity
April 1, 2017		¥937,950	¥2,410,572	¥5,480,639	¥(375,223)	¥179,453	¥8,633,391	¥2,409,038	¥11,042,429
Comprehensive income									
Profit		−	−	289,289	−	−	289,289	76,279	365,568
Other comprehensive income		−	−	−	−	20,091	20,091	6,808	26,899
Total comprehensive income		−	−	289,289	−	20,091	309,380	83,087	392,467
Value of transactions with shareholders etc.									
Dividends of surplus	10	−	−	(120,922)	−	−	(120,922)	(57,351)	(178,273)
Transfer to retained earnings	10	−	−	(150)	−	150	−	−	−
Purchase and disposal of treasury stock	10	−	−	−	(43,284)	−	(43,284)	−	(43,284)
Changes in ownership interest in subsidiaries		−	(10,383)	−	−	−	(10,383)	(405)	(10,788)
Share-based compensation transactions		−	1,046	−	−	−	1,046	−	1,046
Put options granted to non-controlling interests	10	−	(3,332)	−	−	−	(3,332)	−	(3,332)
Total value of transactions with shareholders etc.		−	(12,669)	(121,072)	(43,284)	150	(176,875)	(57,756)	(234,631)
June 30, 2017		¥937,950	¥2,397,903	¥5,648,856	¥(418,507)	¥199,694	¥8,765,896	¥2,434,369	¥11,200,265

【Three Months Period Ended June 30, 2018】

	Notes	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Other equity components	Total	Non-controlling interests	Total equity
		Millions of yen							
		NTT Shareholders' Equity							
March 31 2018		¥937,950	¥2,396,555	¥6,138,351	¥(610,742)	¥200,638	¥9,062,752	¥2,502,902	¥11,565,654
Cumulative effect of adoption of IFRS 9 "Financial Instruments"		–	–	14,033	–	(2,432)	11,601	7,565	19,166
April 1 2018		937,950	2,396,555	6,152,384	(610,742)	198,206	9,074,353	2,510,467	11,584,820
Comprehensive income									
Profit		–	–	289,746	–	–	289,746	85,609	375,355
Other comprehensive income		–	–	–	–	10,439	10,439	12,070	22,509
Total comprehensive income		–	–	289,746	–	10,439	300,185	97,679	397,864
Value of transactions with shareholders etc.									
Dividends of surplus	10	–	–	(147,831)	–	–	(147,831)	(67,474)	(215,305)
Transfer to retained earnings	10	–	–	(123)	–	123	–	–	–
Transfer to non-financial assets	10	–	–	–	–	3,905	3,905	–	3,905
Purchase and disposal of treasury stock	10	–	1	–	(108,024)	–	(108,023)	–	(108,023)
Changes in ownership interest in subsidiaries		–	175	–	–	–	175	(1,162)	(987)
Share-based compensation transactions		–	1,548	–	–	–	1,548	–	1,548
Put options granted to non-controlling interests	10	–	(77)	–	–	–	(77)	–	(77)
Other		–	–	300	–	–	300	–	300
Total value of transactions with shareholders etc.		–	1,647	(147,654)	(108,024)	4,028	(250,003)	(68,636)	(318,639)
June 30, 2018		¥937,950	¥2,398,202	¥6,294,476	¥(718,766)	¥212,673	¥9,124,535	¥2,539,510	¥11,664,045

(4) 【Condensed Consolidated Statement of Cash Flows】

【Three Months Period Ended June 30】

	Notes	2017	2018
		Millions of yen	
Cash flows from operating activities			
Profit		¥365,568	¥375,355
Depreciation and amortization		330,951	325,490
Share of loss (profit) of entities accounted for using equity method		(3,005)	(6,136)
Losses on retirement of fixed assets		13,172	11,681
Gain on sales of fixed assets		(1,012)	(5,097)
Income taxes		162,242	167,296
Decrease (increase) in trade and other receivables		271,449	212,869
Decrease (increase) in inventories		(37,475)	(6,356)
Decrease (increase) in other current assets		(74,446)	(71,804)
Increase (decrease) in trade and other payables / accrued payroll		(225,389)	(244,619)
Increase (decrease) in other current liabilities		(25,378)	(46,962)
Increase (decrease) in defined benefit liabilities		3,555	4,960
Increase (decrease) in other non-current liabilities		10,822	5,319
Other		4,656	22,210
Sub-total		795,710	744,206
Interest and dividends received		19,445	21,815
Interest paid		(11,479)	(11,213)
Income taxes paid		(307,991)	(322,902)
Net cash provided by (used in) operating activities		495,685	431,906
Cash flows from investing activities			
Purchase of property, plant and equipment, intangible assets and investment property		(544,563)	(467,276)
Purchase of investments		(75,380)	(12,431)
Proceeds from sale or redemption of investments		53,338	8,747
Expenses due to acquisition of control of subsidiaries		(5,197)	(82,108)
Other		(1,585)	7,358
Net cash provided by (used in) investing activities		(573,387)	(545,710)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings		264,838	534,493
Proceeds from increases in long-term debt	9	219,063	16,006
Repayment of long-term debt	9	(85,852)	(198,627)
Payments for acquisition of interests in subsidiaries from non-controlling interests		(8,579)	(6,314)
Dividends paid		(120,922)	(147,831)
Dividends paid to non-controlling interests		(55,127)	(65,434)
Payments for purchase of treasury stock		(43,301)	(108,038)
Other		(7,086)	(8,979)
Net cash provided by (used in) financing activities		163,034	15,276
Effect of exchange rate change on cash and cash equivalents		547	627
Net increase (decrease) in cash and cash equivalents		85,879	(97,901)
Cash and cash equivalents as of April 1	7	1,075,773	895,003
Cash and cash equivalents as of June 30	7	¥1,161,652	¥797,102

【Notes to Condensed Consolidated Financial Statement】

1. Reporting Entity

NIPPON TELEGRAPH AND TELEPHONE CORPORATION (hereinafter "NTT") is a company domiciled in Japan. The address of NTT's registered headquarters is displayed on the company's website (http://www.ntt.co.jp/index_e.html). The condensed consolidated financial statements comprise NTT and its subsidiaries ("NTT Group").

NTT Group's principal businesses and activities consist of: its Regional Communications Business (the provision of communications services within local prefectures and other incidental business under the group's domestic telecommunications business). which is primarily led by NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION ("NTT East") and NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION ("NTT West"); its Long Distance and International Communications Business (the provision of communications services between prefectures under the group's domestic telecommunications business, as well as the group's international communications business, solutions business and other businesses incidental thereto), which is primarily led by NTT Communications Corporation ("NTT Communications") and Dimension Data Holdings plc; its Mobile Communications Business (mobile phone business and related services), which is primarily led by NTT DOCOMO Corporation ("NTT DOCOMO"); and its Data Communications Business (systems integration and network systems services etc.), which is primarily led by NTT DATA Corporation ("NTT DATA.")

2. Basis of Preparation

(1) Matters Regarding Compliance with and First-Time Adoption of IFRS

NTT Group meets the requirements of a "Specified Company complying with Designated International Accounting Standards" pursuant to Article 1-2 of the "Order on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements" (Cabinet Office Order No. 64 of 2007) (the "Order on Consolidated Financial Statements"). Consequently, in accordance with Article 93 of the Order on Consolidated Financial Statements, NTT Group prepares condensed quarterly consolidated financial statements pursuant to International Accounting Standard ("IAS") No. 34, "Interim Financial Reporting." The condensed quarterly consolidated financial statements were approved by the Board of Directors on August 7, 2018.

NTT Group has applied International Financial Reporting Standards ("IFRS") beginning with the three months ended June 30, 2018 (April 1, 2018 to June 30, 2018), with the date of transition to IFRS being April 1, 2017. In connection with the transition to IFRS, NTT Group has applied IFRS 1, "First-time Adoption of International Financial Reporting Standards." Please see "Note 14: First-Time Adoption of IFRS" for details regarding the impact of the transition to IFRS on NTT Group's financial position, results of operation and cash flows.

NTT Group's accounting policies conform to IFRS as in effect as of June 30, 2018, with the exception of IFRS provisions that have not been early adopted and exemptions allowed pursuant to IFRS 1.

(2) Basis for Measurement

As described in "Note 3: Significant Accounting Policies," the condensed quarterly consolidated financial statements are prepared on the basis of acquisition cost, with the exception of financial instruments measured at fair value, and assets and liabilities recognized in relation to defined benefit plans.

(3) Functional Currency and Presentation Currency

The currency used to present the condensed quarterly consolidated financial statements is the Japanese yen, which is the currency used in the primary economic environment where NTT conducts its business activities (hereinafter referred to as the "functional currency"). Amounts are rounded to the nearest million yen.

(4) Changes in Accounting Policy

NTT Group has applied IFRS 9, "Financial Instruments" (as published in July 2014) from the beginning of the fiscal year ending March 31, 2019 (April 1, 2018).

Based on exemptions under IFRS 1, comparative figures have not been restated with IFRS 9. The accounting standards in use as of the transition date to IFRS and in previous fiscal years were generally accepted accounting principles in the United States ("U.S. GAAP"); and the significant accounting policies under U.S. GAAP, as well as the significant accounting policies for the current fiscal year are described in "3. Significant Accounting Policies, (4) Financial Instruments. "

Due to the change in this accounting policy, equity instruments whose fair value was not easily determined under U.S. GAAP (under which they were measured using the cost method) will be measured at fair value at the beginning of the current fiscal year. At the time of application of IFRS 9 pursuant to IFRS 1, the irrevocable election was made that for all subsequent changes in fair value would be recorded as other comprehensive income. Any changes in fair value were recognized as "other comprehensive income" in the condensed consolidated statement of comprehensive income. The impact of this change on the consolidated statement of financial position is as follows.

Accounting Item (Classifications based on U.S. GAAP)	Balance as of end of previous fiscal year (March 31, 2018)	Balance at the beginning of current fiscal year based on IFRS 9 (April 1, 2018)	Correction Factor
Non-current assets			
Other financial assets (Investment using cost method)	54,364	67,258	Impact of using fair value measurements for unlisted stocks

Apart from the above-mentioned correction factor, the impact of any changes in accounting policy are not material.

The cumulative effects on values at the beginning of the start of the current fiscal year as a result of the application of IFRS 9 were primarily as follows: "Investments accounted for using equity method" increased by ¥ 4,993 million; "Other financial assets (Non-current)" increased by ¥ 20,883 million; "deferred tax assets" decreased by ¥5,912 million; "deferred tax liabilities" increased by ¥ 963 million; "retained earnings" increased by ¥14,033 million; "other components of equity" decreased by ¥2,432 million; and "non-controlling interests" increased by ¥7,565 million. Furthermore, the impact on "profit" and "basic earnings per share" for the three months ended June 30, 2018 is not material.

3. Significant Accounting Policies

The accounting policies adopted by NTT Group apply to all periods described in these condensed quarterly consolidated financial statements (including the consolidated statement of financial position as of the IFRS transition date).

(1) Basis for Consolidation

(i) Subsidiaries

"Subsidiaries" are companies over which NTT Group has control. Control is achieved if NTT Group has power over the investee, or has exposure or rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated for the period from the date control is gained until the date control is lost. In the event that the accounting policies adopted by a subsidiary differ from those adopted by NTT Group, then the financial statements of the subsidiary are adjusted as required.

The consolidated financial statements include financial statements for subsidiaries of which fiscal year-end date is different from that of NTT Group due to the fact that the local legal systems of the jurisdictions in which such subsidiaries reside, or other similar circumstances make it practically unfeasible to align the dates with the fiscal year-end date of NTT Group. The fiscal year-end date for such subsidiaries is mainly December 31. For such subsidiaries, either supplemental financial information is prepared at the fiscal year-end of the parent company, or, alternatively, adjustments are made for any significant transactions or events that occur during the period between such subsidiaries' fiscal year-ends and that of NTT Group.

Non-controlling interests are composed of the amount of equity held as of the date control is initially gained and any fluctuations in those non-controlling interests from that date. In general, subsidiaries' comprehensive income is allocated to shareholders' equity and non-controlling interests, even in the event that the non-controlling interests are negative balances.

The balance of intra-group receivables and payments, transactions and unrealized gains and losses incurred from the intra-group transactions are eliminated when preparing consolidated financial statements.

Changes in equity interests are treated as capital transactions for accounting purposes in cases where additional equity in a subsidiary is gained or where part of the equity in a subsidiary is disposed, while control of the subsidiary is maintained. The carrying amounts of NTT Group's equity interests and non-controlling interests are adjusted to reflect any changes in NTT Group's equity interests in subsidiaries. Any difference between the adjusted value of non-controlling interests and the fair value of consideration paid or received is directly recognized in equity and is attributable to NTT.

When NTT Group loses control of a subsidiary, the related gains/losses are calculated as the differences between:

- The sum of the fair value of the consideration received and the fair value of the remaining equity interests.

- The assets (including goodwill) and liabilities of the subsidiary and the carrying amount (net) of non-controlling interests at the date when control is lost.

With respect to subsidiaries, anything that have previously been recognized as other components of equity is transferred to profit/loss.

(ii) Investments in associates and joint ventures

"Associates" are companies over which NTT Group exerts significant influence in terms of the company's finances and management policies, without exerting control or joint control. In general, other companies in which NTT Group holds 20% to 50% of the voting rights are included in associates. Cases where NTT Group holds less than 20% of the voting rights may be included in associates if the Group is considered to exert significant influence through the dispatch of officers or similar means.

"Joint ventures" are companies in which NTT Group invests and several parties (including NTT and/or its consolidated subsidiaries) have rights to net assets based on arrangements for joint control. "Joint control" is the sharing of control as contractually agreed, and exists only when all parties sharing control to net assets are required to be in consistent agreement when making decisions on relevant activities.

Investments in associates and joint ventures are accounted for using the equity method. The amounts invested in associates and jointly controlled companies are initially recognized at the acquisition cost. Subsequently, with effect from the date NTT Group starts to exert significant influence to the date such influence ceases, any profit/loss and other comprehensive income are recognized as equity interests and investment amounts are adjusted.

If any losses on investment in associates or joint ventures exceed NTT Group's invested interests in that company, NTT Group shall only recognize losses to the company to the extent of legal or other similar obligations, or payments to be made on such company's behalf.

Unrealized profit/loss generated by transactions from investments in associates and jointly controlled companies are added or deducted from the investment in the associates and joint ventures, up to a maximum of NTT Group's equity share.

The amount of the acquisition cost of investments in associates and jointly controlled companies exceeding NTT Group's equity share of the net fair value of identifiable assets and liabilities as recognized on acquisition date are recognized as goodwill and included in the carrying amount of investments in associates and jointly controlled companies.

As this goodwill is not recognized separately, no independent goodwill impairment test can be carried out. Instead, an impairment test is carried out on total investment in associates and joint ventures as a single asset if there is objective evidence to indicate that the investment may be impaired.

The consolidated financial statements include investments in associates with different fiscal year-end dates than NTT Group due to the fact that, depending on the relationship with other shareholders and similar circumstances making it practically unfeasible to align the dates with the fiscal year-end date of NTT Group. The fiscal year-end date for such associates are mainly December 31. Adjustments are made for any significant transactions or events that occur during the period between the associate's fiscal year-ends and that of NTT Group.

(2) Business Combinations

The consideration delivered at the time of the business combination is measured as the sum of the assets transferred by NTT Group, the liabilities of former owner of the acquired company underwritten by NTT Group and the fair value of stock or other equity instruments issued by NTT Group on the date control is gained. Acquisition-related expenses are recognized in profit/loss at the time they are incurred.

Any identifiable assets acquired and liabilities assumed on the date control is gained are recognized at fair value as of that date, with the exception of the following:

- Deferred tax assets/deferred tax liabilities, and assets/liabilities relating to employee benefits are recognized and measured in accordance with IAS 12, "Income Taxes" and IAS 19, "Employee Benefits," respectively.

- The acquired company's share-based compensation agreements, or any liabilities or equity instruments alternatively issued to convert such agreements to NTT Group's scheme, are measured on the date control is gained in accordance with IFRS 2, "Share-based Payment."

- Assets classified as held for sale or disposal groups are measured in accordance with IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations."

Goodwill is measured as the amount of excess if the sum of the transferred consideration and the amount of the non-controlling interests in the acquired company exceed the net amount of identifiable assets and liabilities on the date control is gained. If any such difference is a negative amount, it is immediately recognized in profit/loss.

NTT Group chooses to measure non-controlling interests either at fair value or, alternatively, as a proportion of the non-controlling interests vs. identifiable net assets recognized by NTT Group on a case-by-case basis for each business combination transaction. In the case of business combinations achieved in stages, the equity interest in the acquired company previously held by NTT Group is remeasured at fair value on the date control is gained. Any differences arising from remeasurement are recognized as profit/loss or as other comprehensive income and then transferred to retained earnings.

The amount of other comprehensive income pertaining to changes in the amount of interests in the acquired company which was recorded prior to the dated control was gained is accounted for using the same method as would be used if NTT Group were to directly dispose of those interests, and is recognized as profit/loss or other comprehensive income.

If the initial accounting for business combinations is not completed by the end of the fiscal year, NTT Group will report provisional amounts for those items that have not yet been completed. Subsequently, if any new facts and circumstances are found to have existed as of the date control was gained, and if any such facts/circumstances are deemed to affect the recognized amount of the business combination process, the provisional amounts will be retrospectively adjusted as of the date control was gained as a correction discovered during the measurement period. The measurement period is a maximum of one year from the date control is gained.

NTT Group has applied the provisions on exemptions set forth under IFRS 1 and will not apply IFRS 3, "Business Combinations" retrospectively for any business combinations that occurred prior to April 1, 2002. Goodwill generated by business combinations that occurred prior to April 1, 2002 is recognized at its book value under U.S. GAAP. In addition, goodwill generated by business combinations prior to the IFRS transition date will be subjected to impairment tests as of the transition date, regardless of whether there is any indication of impairment.

(3) Foreign Currency Translations

(i) Transactions Denominated in Foreign Currencies

NTT Group company's financial statements are prepared in the functional currency used in each company. Any transactions in currencies other than the functional currency (i.e., in a foreign currency) are translated using the exchange rate at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate at the end of the fiscal year. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated into the functional currency using the exchange rate at the date when the fair value was measured. Furthermore, non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the exchange rate at the transaction rate.

Any foreign currency translation differences are recognized in profit/loss. However, translation differences arising from financial assets that present subsequent changes in fair value in other comprehensive income (equity instruments) or cash flow hedges (solely to the extent the hedge is effective) are recognized in other comprehensive income.

(ii) Foreign Operations

In order to prepare the condensed quarterly consolidated financial statements, the assets and liabilities of foreign operations (including any goodwill arising from acquisitions and any fair value adjustments) are translated into Japanese yen using the exchange rates at the fiscal year end.

Revenue, expenses and cash flows are translated into Japanese yen using the average exchange rate for the period. However, if it does not approximate the exchange rate at the transaction date, then the transaction is made using the exchange rate at the transaction date.

Foreign currency translation differences arising from the translation of foreign currency-denominated financial statements from foreign operations are recognized in other comprehensive income and accumulated in other components of equity.

If the control or significant influence on a foreign operation is lost, then any accumulated foreign currency translation differences related to a foreign operation are recognized as profit/loss in the accounting period in which control/influence was lost.

(4) Financial Instruments

Previous accounting standards (U.S. GAAP) are applied on the transition date to IFRS and the previous fiscal years pursuant to the exemption provisions in IFRS 7, "Financial Instruments: Disclosures," and IFRS 9, based on IFRS 1. For the fiscal year ending March 31, 2019, IFRS 7 and IFRS 9 have been applied, with the accounting policies described below.

(i) Financial Assets

Upon initial recognition, financial assets are classified as (a) financial assets measured at amortized cost, (b) financial assets measured at fair value through other comprehensive income or (c) financial assets measured at fair value through profit/loss. In each case, NTT Group initially recognizes these assets on the dates on which NTT Group became party to contracts for them.

If the contractual rights to cash flows of the financial asset expire, or alternatively if the contractual rights to receive cash flows of the financial asset are transferred and substantially all the risks and rewards of ownership of the financial asset are thereby transferred as well, then the financial asset is derecognized and it is excluded from the quarterly consolidated statement of financial position.

(a) Financial Assets Measured at Amortized Cost

In the case of loans and other similar debt instruments, any financial assets that satisfy both of the following conditions are classified as financial assets measured at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any transaction costs directly attributable to the acquisition of financial assets measured at amortized cost are added to the fair value of these assets upon initial recognition. Furthermore, taking into consideration the timing for payment of consideration for goods and services provided, the time value of money is immaterial, and trade receivables that do not include any significant financial elements are initially measured at the applicable transaction price.

After initial recognition, those assets are measured at amortized cost by deducting the loss allowance from the gross carrying amount calculated based on the effective interest method.

(b-1) Financial Assets Measured at Fair Value Through Other Comprehensive Income (Debt Instruments)

In the case of corporate bonds and other similar debt instruments, debt instruments that satisfy both of the following conditions are classified as "financial assets measured at fair value through other comprehensive income."

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any transaction costs directly attributable to the acquisition of financial assets at fair value through other comprehensive income are added to the fair value at the time of initial recognition. After initial recognition, those assets are measured at fair value and any subsequent changes are recognized as other comprehensive income. Amounts recognized as other comprehensive income are cumulatively transferred to profit/loss if the asset is derecognized due to selling or otherwise.

(b-2) Financial Assets Measured at Fair Value Through Other Comprehensive Income (Equity Instruments)

At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading. NTT Group determines this designation for each financial instrument.

Any transaction costs directly attributable to the acquisition are added to the fair value of equity instruments at fair value through other comprehensive income at the time of initial recognition. After initial recognition, such instruments are measured at fair value and any subsequent changes are recognized as other comprehensive income. When recognition of other comprehensive income that has accumulated in other components of equity is terminated, the accumulated amount is transferred to retained earnings and not to profit/loss. In addition, dividends are recognized as profit/loss.

(c) Financial Assets Measured at Fair Value Through Profit/Loss

Financial assets other than those mentioned in (a), (b-1) and (b-2), such as derivatives, are classified as financial assets measured at fair value through profit/loss.

Financial assets measured at fair value through earnings are measured at the fair value at the time of initial recognition and any transaction costs directly incurred in their acquisition are recognized as profit/loss at the time they are generated. After initial recognition, those financial assets are measured at fair value and any subsequent changes are recognized as profit/loss.

(ii) Impairment of Financial Assets

NTT Group measures the amount of impairment loss (loss allowance) for financial assets to be measured at amortized cost, financial assets measured at fair value through other comprehensive income (debt instruments), lease receivables, contract assets, financial guarantee contracts and loan commitments on the basis of expected credit loss.

- If, at the end of the fiscal year, the credit risk for a financial asset has not increased significantly since the asset was initially recognized, then the amount of the loss allowance is calculated using the expected credit loss that may occur due to a breach of obligations within 12 months of the reporting date (expected credit losses for 12 months).

- If, at the end of the fiscal year, the credit risk for a financial asset has increased significantly since the asset was initially recognized, then the amount of the loss allowance is measured using the expected credit loss that may occur from all possible breaches of obligations over the expected life of the financial instrument (expected credit losses for the life time).

Notwithstanding the above, the amount of loss allowance for trade receivables and contract assets that do not include any significant financial elements and lease receivables is always measured using the expected credit loss for the full term.

(iii) Financial Liabilities

At initial recognition, all financial liabilities are classified as financial liabilities that are measured at amortized cost with the exception of those liabilities that are measured at fair value through profit/loss. In each case, NTT Group initially recognizes financial liabilities on the dates on which NTT Group became party to contracts for them.

A financial liability is excluded from the quarterly consolidated statement of financial position when it is eliminated; that is, the liability is terminated when the obligation stated in a contract is exempted, canceled, or revoked.

Financial Liabilities Measured at Fair Value Through Profit/Loss

Financial liabilities classified as assets held for trading and that are measured at fair value through profit/loss, such as derivatives, are measured at the fair value applicable at the time of initial recognition. Those liabilities are measured at fair value after initial recognition as well, and any subsequent changes are recognized as profit/loss.

Financial Liabilities Measured at Amortized Cost

Among financial liabilities such as loans and corporate bonds, those financial liabilities that are not measured at fair value through profit/loss are classified as financial liabilities measured at amortized cost. When measuring financial liabilities at amortized cost, any transaction costs directly attributable to the issuance of the debt are deducted from the fair value applicable at the time of the initial recognition. After initial recognition, such liabilities are measured at amortized cost based on the effective interest rate method.

(iv) Accounting for Derivatives and Hedges

NTT Group conducts derivative transactions, such as forward exchange contract transactions, interest rate swap transactions and currency swap transactions, in order to hedge foreign exchange risk and interest rate risk. NTT Group does not conduct derivate transactions for speculative purposes.

At the start of a hedge, NTT Group provides designation and documentation on risk management objectives with regard to hedging relationships and the implementation of the hedge. This documentation includes the designation of hedging instruments, the items or transactions being hedged, the nature of the risks being hedged, and methods for evaluating the effectiveness of the hedging instruments used when the hedge is being conducted to offset fluctuations in the fair value of the items/transactions being hedged or fluctuations in cash flows. At the time of making the hedge designation, NTT Group expects any such hedges to be highly effective in offsetting fluctuations in fair value or cash flows, and also continuously evaluates their effectiveness for the future throughout the period in which they are designated as hedges.

Derivatives are initially recognized at fair value. After initial recognition, derivatives are measured at fair value and any subsequent changes are accounted for as follows.

Fair Value Hedges

Fluctuations in the fair value of derivatives that act as hedging instruments are recognized as profit/loss. For fluctuations in the fair value of the hedged item that relate to the hedged risk, the carrying amount of the hedged item is revised and recognized as profit/loss.

Cash Flow Hedges

Within the fluctuations in the fair value of derivatives that are hedging instruments, the part where the hedge is judged to be effective is recognized as other comprehensive income, with accumulated amounts included in other components of equity. Meanwhile, the part where the hedge is ineffective is recognized as profit/loss. During the accounting period in which the gain or loss on the hedged item is recognized, the amount accumulated in other components of equity is transferred to profit/loss. If, however, the hedge item is anticipated to give rise to a non-financial asset or liability, then it is recognized under other components of equity, and the amount is reclassified as a correction to the initial carrying amount of the non-financial asset or liability.

As part of its hedging process with respect to cash flow hedges, for foreign currency forward contracts, NTT Group only specifies changes in the fair value of spot commodities, and for currency swaps, NTT Group only specifies changes in fair value, excluding currency basis spreads.

Derivatives Not Designated as Hedging Instruments

Fluctuations in the fair value of derivatives are recognized as profit/loss.

Accounting policies under U.S. GAAP in use as of the transition date to IFRS and in previous fiscal year are described below.

(i) Marketable Securities and Other Investments

Unrealized gains on holdings of available-for-sale securities whose fair value can easily be calculated are recorded as other components of equity. Equity securities for which fair value cannot be easily calculated, as well as those with transfer restrictions, are accounted for using the cost method. NTT Group periodically reviews the carrying amounts of its marketable securities for instances in which fair value has declined below cost and resulted in impairments that are other than temporary. If this evaluation indicates there is an impairment that is other than temporary, then the carrying amount of such security is written down to their fair value. Debt securities to be held to maturity are valued using the amortized cost method, and when there is decline in market prices that are other than temporary, they are written down to net realizable value. Realized gains and losses, which are determined on the average cost method, are recognized as profit/loss.

(ii) Allowance for Doubtful Accounts

NTT Group records allowances for doubtful accounts to prepare for losses on bad debts. The allowance for doubtful accounts against receivables that are not evaluated for impairment individually on the basis of similar credit risks, but rather are evaluated as a group, is calculated based on historical credit loss ratio for each category of receivable. The allowance for doubtful accounts against receivables individually evaluated for impairment is calculated 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 amortized at the time of such determination.

Among financing receivables including loans and lease receivables, the main receivables held by the financial subsidiaries are monitored past due status by length of past due date. Financing receivables on nonaccrual status are determined with no prospects for collecting contractual interest on the basis of past due date and other factors.

(iii) Financial Derivative Instruments (Derivatives)

NTT Group uses derivatives to manage the risk of fluctuations in foreign exchange and interest rates, among others. NTT Group does not conduct derivative trades for speculative purposes.

All derivatives are recognized at fair value either in assets or liabilities, and are recorded in the consolidated statement of financial position under “Other financial assets (current),” “Other financial assets (non-current),” “Other financial liabilities (current),” or “Other financial liabilities (non-current).” Each derivative is categorized as current or non-current depending on whether the term to maturity of the particular instrument is 12 months or less, or over 12 months. Changes in the fair value of a derivative are recognized as profit/loss or equity (under “Other components of equity”). This depends on whether the derivative is recognized as a hedge transaction or not, and whether or not it is intended to hedge fair value or cash flow.

The fair values of foreign exchange futures, interest rate swaps, currency swaps, currency options and forward transactions are assessed using market prices based on observable market data provided by financial institutions.

Derivative trades classified as “fair value hedges” are designated as fair value hedges for recognized assets and liabilities, or alternatively for firm commitments as yet unrecognized. After recording changes in fair value pertaining to hedge-effective derivatives to profit/loss, these are offset with changes in hedged assets and liabilities.

Derivatives classified as cash flow hedges are designated as hedges against the risk of fluctuations in cash flows related to scheduled transactions or recognized assets and liabilities. Changes in the fair value of hedge-effective derivatives are firstly included in “Other components of equity” and then reclassified to profit/loss at the point in time the hedge transaction affects profit/loss.

In NTT Group, derivatives may be used to hedge against specific economic risks even when hedge accounting is not applied. In such cases, fluctuations in the fair value of derivatives are recorded as profit/loss.

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 consolidated statement of financial position or (2) specific firm commitments or forecasted transactions. NTT Group assesses (both at the hedge’s inception and on an ongoing, and at least quarterly, basis) 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 adequately effective in future periods. When it is determined that a derivative is not adequately 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 either “financial revenue” or “financial expenses” in the consolidated statement of profit or loss.

Cash flows from financial instruments that have adopted hedge accounting are recorded in consolidated statement of cash flow under the same section as hedged items.

(5) Cash and Cash Equivalents

Cash and cash equivalents consist of cash at hand, deposits that can be withdrawn as required and short term investments that can be readily converted to cash and only have an insignificant risk of changes in value whose term to maturity falls within 3 months of the acquisition date.

(6) Inventories

Inventories consist of telecommunications equipment, work in progress, materials and production supplies, which are measured at the lower of cost or net realizable value. The costs of telecommunications equipment to be sold and materials are determined on a first-in. first-out basis. The cost of work in progress is mainly attributable to that of software production pursuant to contract with customer 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.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(7) Property, Plant and Equipment

Plant, property and equipment are measured using the cost model which records an amount that deducts accumulated depreciation and accumulated impairment losses from the acquisition cost. Acquisition costs include expenses directly attributable to the acquisition of an asset and the cost of borrowings to be capitalized.

Depreciation is measured principally using the straight-line method over the estimated useful life of each component. The depreciable value is calculated by deducting residual value from the acquisition price of the asset. Land and construction in progress are not depreciated.

The estimated useful lives of major items of property, plant and equipment are as follows:

<u>Telecommunications Equipment</u>

Digital switch equipment (including wireless communication equipment) ..... 8 to 16 years

<u>Telecommunications Service Lines</u>

Cables ..... 13 to 36 years

Tubes and tunnels ..... 50 years

<u>Buildings and Structures</u>

Reinforced concrete buildings ..... 42 to 56 years

Machinery, vessels and tools ..... 3 to 26 years

NTT Group reviews the depreciation method for assets, useful lives and residual values at the end of each fiscal year, and any changes are accounted for on a prospective basis as changes in accounting estimates.

(8) Intangible Assets

(i) Goodwill

Goodwill arising from the acquisition of subsidiaries is recorded under intangible assets.

NTT Group measures goodwill as the amount of excess if the sum of the transferred consideration and the amount of the non-controlling interests in the acquired company exceeds the net amount of identifiable assets and liabilities on the date control of the company is gained.

Goodwill is not amortized, but testing for impairment is required at least annually and more frequently when there is any indication of impairment in allocated cash-generating units where goodwill is allocated.

For details regarding the impairment of goodwill, see "Note 3. Significant Accounting Policies - (11)Impairment." Goodwill is accounted for in the consolidated statement of financial position at the carrying amount obtained by deducting the accumulated impairment loss from the acquisition cost.

(ii) Other Intangible Assets

Intangible assets are measured using the cost model as the amount obtained by deducting accumulated amortization and accumulated impairment from the acquisition cost.

Individually acquired intangible assets are measured at cost at initial recognition. Intangible assets acquired through business combinations are recognized separately from goodwill at the time of initial recognition and are measured at the fair value as of the date control is gained. R&D expenses incurred within NTT Group are recognized as expenses when incurred, with the exception of expenditures on development activities that meet the requirements for capitalization (internally generated intangible assets). internally generated intangible assets are measured at the time of initial recognition as the sum total of expenditures incurred from the date all requirements for capitalization are met, to the date the development is completed.

Some intangible assets have definable useful lives, while others do not.

For intangible assets with definable useful lives, amortization costs are calculated using the straight-line method over the estimated useful lives of the assets.

The main intangible asset with a definable useful life is computer software. Internal-use software is capitalized if it has a useful life of more than one year. The cost of adding to, modifying, or improving software used is 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 as incurred. Capitalized computer software is amortized on a straight-line basis over approximately five to seven years.

NTT Group reviews the amortization method used for assets, useful lives and residual values at the end of each fiscal year, and any changes are accounted for on a prospective basis as changes in accounting estimates.

The main intangible assets with indefinable useful lives are trademarks, trade names and land lease rights.

NTT Group does not amortize intangible assets with indefinable useful lives or intangible assets that are not yet in use. For details regarding the impairment of such assets, see Note "3. Significant Accounting Policies - (11)Impairment."

(9) Leased Assets

NTT Group determines whether or not a contract constitutes a lease or contains a lease based on the actual circumstances of a contract at its start date.

Lease transactions that transfer substantially all the risk and rewards incidental to ownership of the asset to the lessee are classified as "finance leases," while other lease transactions are classified as "operating leases."

Substantially all the risk and rewards incidental to ownership of the asset are deemed to have been transferred if the lease term accounts for the majority of the asset's useful economic life, or if the present value of the minimum lease payments is approximately equivalent to the full fair value of the asset. The lease term is set as the sum of the periods during which renewal options can be reasonably assured, in addition to the period when the contract cannot be canceled, on the date the lease starts.

(i) Finance Lease Transactions

(as Lessee)

Leased assets and lease obligations are initially recognized at the lower of (i) the fair value of the leased asset as of the date the lease starts or (ii) the present value of the sum total of the minimum lease payments.

After initial recognition, the accounting treatment for the asset will be based on the accounting policies applicable to the asset. Lease payments are allocated to finance costs and lease obligation repayments, and finance expenses are calculated in order to equal the interest rate for a certain period with respect to the outstanding debt.

Assets held under finance leases are depreciated using their estimated useful lives in cases where transfer of ownership is assured before the end of the lease term, and are depreciated using the shorter of the lease term or the estimated useful life of the leased asset in cases where transfer is not assured.

(as Lessor)

The net investment in the lease is recognized as the lease receivable, and the total sum of lease payments receivable is classified as principal equivalent or interest equivalent. The amount allocated as interest on the lease payments receivable is calculated pursuant to a method that reflects a constant periodic rate of return on the lessor's net investment in the lease. the lessor's net investment in the lease is the sum total of the lease fees due to the lessor in the finance lease and the unguaranteed residual value (that portion where there is no borrower's guarantee, or where only the lender related parties have made a guarantee), discounted by the calculated interest rate applicable to the lease.

(ii) Operating Lease Transactions

(as Lessee)

The sum total of lease payments due over the term of the operating lease is recognized as an expense using the straight-line method over the duration of the lease term.

(as Lessor)

The sum total of lease payments receivable over the term of the operating lease is recognized as revenue using the straight-line method over the duration of the lease term.

(10) Investment Property

Investment property is real estate held to earn rentals, capital gains on sales or other dispositions, or both. It does not include property sold in the ordinary course of business or property used in production or supply of goods or services or for any other administrative purpose.

After initial recognition, NTT Group measures investment property using the cost model, which deducts accumulated depreciation and accumulated impairment losses from the acquisition cost.

With the exception of land, investment property is depreciated over its estimated useful life primarily based on the straight-line method, with an estimated life of 2-50 years. NTT Group reviews the depreciation method, useful lives and residual values at the end of each year, and any changes are accounted for on a prospective basis as changes in accounting estimates.

(11) Impairment

(i) Impairment of Property, Plant and Equipment, Intangible Assets and Investment Properties

NTT Group determines whether there are any indicators of potential impairment of property, plant and equipment, intangible assets and investment properties as of each reporting date.

If there are indicators of impairment, estimates are carried out to assess recoverable amounts. If it is not possible to estimate the recoverable amount for individual assets, then an estimate is made of the amount recoverable for the cash-generating unit to which the asset belongs. Cash-generating units are the smallest unit of asset group, and generate cash flows that are largely independent of other assets or asset groups.

Intangible assets with indefinable useful lives and intangible assets that are not yet in use are tested for impairment at least once a year and more frequently when indicators of impairment are present.

The recoverable amount is calculated as the higher of either the value-in-use or the fair value after the deduction of disposal costs. The value-in-use is calculated by discounting estimated future cash flows to present value using a pre-tax discount rate that reflects the time value of money and the inherent risk of the asset.

In the event that the recoverable amount for the asset or the cash-generating unit falls below the carrying amount, then the carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit/loss.

On each reporting date, NTT Group determines whether there are any indicators that impairment losses recognized in previous years have been reduced or eliminated. NTT Group estimates the recoverable amount for the asset or cash-generating unit if there are indicators that the impairment is in reversal. In the event that the recoverable amount exceeds the carrying amount for the asset or the cash-generating unit, then the impairment is reversed, with the upper limit set at the lower of (i) the recoverable amount or (ii) carrying amount after the deduction of amortization or depreciation if no impairment loss has been recognized in previous years.

(ii) Impairment of Goodwill

NTT Group determines whether there are any indicators of potential impairment of goodwill as of each reporting date.

Goodwill is allocated to either the cash-generating unit or the cash-generating unit group that is expected to enjoy the benefits resulting from the business combination and testing for impairment is required at least annually and more frequently when there are indicators of impairment in the cash-generating unit. The impairment loss is deducted from the carrying amount of goodwill allocated to the cash-generating unit or cash-generating unit group if the recoverable amount for the cash-generating unit is less than the carrying amount in the impairment test; then it is deducted from the carrying amount for each asset in proportion to the carrying amount for assets (i.e. assets other than goodwill) in the cash-generating unit or cash-generating unit group.

Impairment losses for goodwill are recognized in profit/loss and are not reversible in subsequent periods.

(12) Employee Benefits

NTT Group primarily uses defined contribution and defined benefit plans.

(i) Defined contribution plans

Contributions to defined contribution plans are recognized as expenses when an employee renders a service each fiscal year, and unpaid contributions are recognized as liabilities.

(ii) Defined Benefit Plans

Liabilities recognized in connection with defined benefit plans (defined benefit liabilities) are obtained by deducting the fair value of the plan’s assets from the present value of the defined benefit obligations as of the end of the fiscal year.

Defined benefit obligations are calculated by an independent pension actuary using the projected unit credit method. The projected unit credit method is a method in which each period of service gives rise to an additional unit of benefit entitlement, and each unit is measured separately to build up the final obligation. Costs pertaining to defined benefit plans are composed of service costs, interest on the net amount of defined benefit liabilities and assets and remeasurements of the net amount of defined benefit liabilities and assets. Service costs and interest are recognized in profit/loss. Interest amounts are calculated using discount rates determined by referring to the market yield for high-quality corporate bonds payable as of the fiscal year end that reflect the estimated timing and amount of benefit payments.

Remeasurement of the net amount of assets and liabilities in defined benefit plans consists of actuarial gains and losses and revenues related to plan assets (excluding amounts included in interest) and is recognized in other comprehensive income, with accumulated amounts being promptly reclassified from other components of equity to retained earnings.

(13) Provisions

Provisions are recognized in cases where NTT Group faces current legal or constructive obligations as a result of past events, as well as where it is possible that the liabilities will need to be settled or when it is possible to reliably estimate the amount of the liabilities.

Using a pre-tax interest rate that reflects the time value of money, provisions are measured by discounting estimated future cash flows (taking into account the risks and uncertainties related to the obligation as of the fiscal year end) to present value.

The provisions that NTT Group recognizes are primarily asset retirement obligations, provisions for environmental measures and provisions for points programs.

(i) Asset Retirement Obligations

NTT Group recognizes legal obligations related to the disposal of property, plant and equipment as asset retirement obligations; and upon recognition the carrying amount of the related asset is increased.

NTT Group considers its main legal obligations to be the restoration of leased land and buildings for telecommunications equipment to their original condition and recognizes these as asset retirement obligations.

(ii) Provision for Environmental Measures

This provision records the estimated amount of expenditures needed for environmental protections, such as PCB (polychlorinated biphenyl) waste treatment and soil improvement work.

(iii) Provision for Points Programs

NTT Group grants "points" to customers based on the usage of mobile, credit card service and other services, which may be exchanged for benefits such as payments on merchandise and mobile phone charges. The provision for the points program is recorded for points that are awarded to customers but that do not give rise to any contractual performance obligations.

(14) Revenue

Revenue is recognized in an amount of the consideration to which NTT Group expects to be entitled in exchange for those goods or services transferred to customers based on the following five-step approach, excluding interest and dividend revenues pursuant to IFRS 9 and insurance premium revenues pursuant to IFRS 4.

Step 1: Identifying the contract with the customer.

Step 2: Identifying the performance obligation in the contract.

Step 3: Determining the transaction price.

Step 4: Allocating the transaction price to separate performance obligations in the contract.

Step 5: Recognizing revenue when or as the performance obligation is satisfied.

The part of incremental costs of obtaining a contract and costs to fulfill a contract with customers that is expected to be recoverable is recognized as an asset. Incremental costs of obtaining a contract are those incurred in obtaining a contract with a customer that would not have incurred if the contract had not been obtained. Furthermore, costs to fulfill a contract are costs incurred for fulfilling contracts before goods or services are transferred to customers.

(15) Income Taxes

Income taxes consist of current taxes and deferred taxes and are recognized in profit/loss, excluding taxes arising from business combinations, as well as taxes incurred from items directly recognized in other comprehensive income or equity.

Current taxes are measured as the amount expected to be paid to (recovered from) the tax authorities. Tax calculations use the tax rates and tax laws that have been enacted or substantially enacted by the end of the fiscal year.

Deferred tax assets are recognized to the extent that it is probable that deductible temporary differences and the carry forward of unused tax losses and tax credit can be utilized by the future taxable profit. A reassessment of deferred tax assets is conducted at the end of the fiscal year to determine their recoverability.

Note that deferred tax assets are not recognized in respect of temporary differences arising not from business combination but from initial recognition of assets and liabilities in a transaction that does not affect either accounting profit or taxable income.

Deductible temporary differences concerning investments in subsidiaries, associates and joint ventures are recognized as deferred tax assets only if it is possible that the temporary difference will reverse in the foreseeable future and it is possible that the temporary difference will be utilized by the future taxable income.

Deferred tax liabilities are generally recognized for taxable temporary differences, with the exception of the temporary differences listed below.

- Temporary differences arising from initial recognition of assets and liabilities in transactions that are not business combinations and that do not affect accounting profit or taxable income

- Taxable temporary differences arising from the initial recognition of goodwill

- Those taxable temporary differences concerning investments in subsidiaries, associates and joint ventures where the timing of the reversal of the temporary difference can be controlled and it is possible that the temporary difference will not be reversed in the foreseeable future

Deferred tax assets and liabilities are measured using the tax rate expected to be applied at the time the asset is realized or the liability is settled, based on the law that have been enacted or substantially enacted by the end of the fiscal year.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities and income tax is imposed on the same taxpayer by the same tax authority.

(16) Earnings per Share

Basic earnings per share (“EPS”) is calculated based on the average number of outstanding shares during the fiscal year (excluding treasury shares). Diluted EPS is calculated by taking into account the effect of dilution caused by the exercise of the right to issue new shares, the performance of contracts, or the conversion to new shares. However, NTT has not issued dilutive securities for any fiscal year, and there is therefore no difference between basic EPS and diluted EPS.

(17) Operating Segments

Operating segments are components of business activities that earn revenues and incur expenses, including transactions with other operating segments. Financial information is available individually for the results of all operating segments, and is regularly reviewed by NTT’s Board of Directors to facilitate the allocation of management resources to individual segments and the evaluation of performance.

(18) Non-Current Assets Held for Sale

Non-current assets that are determined to recover their carrying amount principally through a sale transaction rather than through continuing use, as well as non-current assets that have ceased to be used in an ongoing capacity and that are to be disposed of (collectively, the “disposal group”) are classified as “held for sale.” These assets are measured at the lower of their carrying amount or their fair value less sales costs. Such assets are not depreciated. These assets are recognized as impaired if the fair value net of sales costs falls below their carrying amounts. In the event of a subsequent increase in the fair value less sales costs, the previously recognized impairment loss is reversed. The maximum amount by which the impairment loss can be reversed is the amount of the impairment loss previously recognized. If the assets no longer satisfy the requirements to be held for sale, they will no longer be recorded as such. In this case, if the asset is no longer classified as held for sale then they will be measured at the lower of either the applicable carrying amount or their recoverable value as of the date they cease to meet the requirements to be classed as “held for sale.”

(19) Put Options Granted to Non-Controlling Shareholders

Generally, short put options (the right to sell to NTT Group) on subsidiary shares that NTT Group grants to non-controlling interest holders are initially recognized as other financial liabilities at the present value of the redemption amount, with the same amount deducted from additional paid-in capital. After initial recognition, the options are measured at amortized cost based on the effective interest rate method, while any subsequent changes in value are recognized as additional paid-in capital.

(20) Treasury Stock

In the event that treasury stock is acquired, the consideration paid including direct acquisition costs (after adjustment for tax) are recognized as a capital deduction item. There is no recognition of profit/loss for the purchase, sale or cancellation of treasury stock. Note that any difference in the carrying amount and the consideration paid at the time of sale is recognized as additional paid-in capital.

4. Significant Accounting Estimates and Judgments Involving Estimates

In preparing the condensed quarterly consolidated financial statements, management makes judgments, estimates and assumptions that affect the application of accounting policies as well as the amounts reported for assets, liabilities, revenue and expenses. These estimates and assumptions involve past experience and the collection of available data, and they are based on management's best judgment in consideration of various factors considered reasonable as of the reporting date. However, due to the nature of such judgments, future results may vary from these estimates and assumptions.

Estimates and their underlying assumptions are continuously reviewed. The effect of revisions to accounting estimates is recognized in the consolidated accounting period during which the estimates were reviewed and in future consolidated accounting periods.

The judgments, estimates and assumptions that have a significant impact on NTT Group's condensed consolidate financial statements are as follows:

- The judgment as to whether or not NTT controls a company in which it invests when defining the scope of consolidation (Note 3. Significant Accounting Policies (1))

- Estimates on the fair value of assets acquired and liabilities assumed through business combinations (Note 3. Significant Accounting Policies (2))

- Measurements of fair value for financial assets that are measured as "financial assets measured at fair value through other comprehensive income" ("Note 3. Significant Accounting Policies (4) and "Note 12. Financial Instruments")

- Judgments on forecast transactions in hedge accounting (Note 3. Significant Accounting Policies (4))

- Amortization periods and estimates related to impairment for financial assets measured at amortized cost (Note 3. Significant Accounting Policies (4))

- Fair value measurements for derivatives (Note 3.Significant Accounting Policies (4) & Note 12. -Financial Instruments)

- Estimates on the useful life of property, plant and equipment, intangible assets and investment property (Note 3. Significant Accounting Policies (7) & (8) & (10))

- Estimates on impairment losses for property, plant and equipment, intangible assets, investment property and goodwill (Note 3. Significant Accounting Policies (11))

- Measurement of obligations under defined benefit plans (Note 3. Significant Accounting Policies (12))

- Judgments and estimates involving the recognition and measurement of provisions (Note 3. Significant Accounting Policies (13))

- Estimate of realizability of deferred tax assets (Note 3. Significant Accounting Policies (15))

5. New Standards Not Yet Applied

Standards and interpretations that were newly issued or revised prior to the date these condensed quarterly consolidated financial statements were approved that NTT Group has not adopted earlier, and whose adoption may impact NTT Group, are as shown below.

Standard / Title	Mandatory Deadline for Adoption (hereinafter the "Initial Fiscal Year") / NTT Group's Scheduled Fiscal Year of Adoption	Outline of New Incorporation/Revision	Potential Impact on Consolidated Financial Statements
IFRS 16 / Leases	January 1, 2019 / Fiscal year ended March 31, 2019	IFRS 16 replaces part of the contents of the existing IAS 17 and the main revisions are as follows. ・Introduction of the concept of control into the concept of lease definitions ・Revised accounting treatment for lessees	The significant impact of adopting this standard will relate to right-of-use assets and lease liabilities concerning leases for land and other property required for the placement of offices and telecommunications equipment are recorded. As a result, it is expected that the balances in assets and liabilities in the consolidated statement of financial position will increase. Details regarding this impact are in the process of being calculated.

6. Segment Information

For each of the business segments reported below, financial information is available, and such financial information is used by NTT Group's management to allocate management resources and evaluate business performance.

The Regional Communications Business segment comprises revenues from fixed voice related services, IP/packet communications service, system integration services, and other operating revenues.

The Long Distance and International Communications Business segment comprises revenues from fixed voice related services, IP/packet communications service, system integration services, and other operating revenues.

The Mobile Communications Business segment comprises revenues from mobile voice related services, IP/packet communications service, sales of telecommunications equipment and other operating revenues.

The Data Communications Business segment comprises revenues from system integration services.

In addition, the Other Business segment principally comprises operating revenues from such activities as building maintenance, real estate rental, systems development, leasing activities, and other services related to research and development.

Operating Revenues:

(Millions of yen)

	Three Months Ended June 30, 2017 (April 1, 2017 - June 30, 2017)	Three Months Ended June 30, 2018 (April 1, 2018 - June 30, 2018)
Regional Communications Business		
Transactions with external customers	636,883	607,042
Inter-segment transactions	149,856	161,882
Sub-total	786,739	768,924
Long Distance and International Communications Business		
Transactions with external customers	508,476	516,556
Inter-segment transactions	24,903	24,609
Sub-total	533,379	541,165
Mobile Communications Business		
Transactions with external customers	1,117,962	1,160,240
Inter-segment transactions	15,635	16,429
Sub-total	1,133,597	1,176,669
Data Communications Business		
Transactions with external customers	447,831	478,459
Inter-segment transactions	24,220	26,781
Sub-total	472,051	505,240
Other Business		
Transactions with external customers	97,569	90,435
Inter-segment transactions	177,187	176,766
Sub-total	274,756	267,201
Elimination of inter-segment transactions	(391,801)	(406,467)
Total	2,808,721	2,852,732

Profit/loss by segment

(Millions of yen)

	Three Months Ended June 30, 2017 (April 1, 2017 - June 30, 2017)	Three Months Ended June 30, 2018 (April 1, 2018 - June 30, 2018)
Segment income		
Regional Communications Business	151,309	142,024
Long Distance and International Communications Business	41,063	32,035
Mobile Communications Business	282,100	309,922
Data Communications Business	26,365	29,256
Other Business	28,452	25,990
Total	529,289	539,227
Elimination of inter-segment transactions	(4,631)	(2,001)
Operating profit	524,658	537,226
Financial revenue	27,149	7,714
Financial expenses	27,002	8,425
Share of profit of entities accounted for using equity method	3,005	6,136
Profit before tax	527,810	542,651

During the first three months of the previous fiscal year and the first three months of the current fiscal year, there are no operating revenues recorded from transactions with a single external customer that account for 10% or more of total revenue.

7. Impact on the consolidated financial statements due to the non-business day for the fiscal year ended March 31, 2018 and first quarter ended June 30, 2018.

The last day of the fiscal year ended March 31, 2018 and first quarter ended June 30, 2018 fell on a non-business day, resulting in the due date for certain bills, including telecommunication service bills, being set to the first business day of the fiscal year ending March 31, 2019 and second quarter ending September 30, 2018, respectively. Consequently, in the condensed quarterly consolidated financial statements for the fiscal year ended March 31, 2018 and first quarter ended June 30, 2018 there were decreases
of cash and cash equivalents and an increase of trade and other receivables, ¥231,929 million and ¥234,524 million respectively.

8. Property, Plant and Equipment

Below is a breakdown of Property, Plant and Equipment as of the transition date to IFRS, the end of the previous fiscal year and the first quarter of the current fiscal year.

	Millions of yen		
	As of Transition Date to IFRS (April 1, 2017)	As of March 31, 2018	As of June 30, 2018
Telecommunications equipment	11,136,502	11,007,130	10,999,425
Telecommunications service lines	15,991,663	16,183,748	16,226,831
Buildings and structures	5,396,368	5,505,984	5,521,202
Machinery, vessels and tools	2,215,418	2,297,488	2,339,496
Land	639,511	657,746	675,311
Construction in progress	414,398	420,481	428,136
Sub-total	35,793,860	36,072,577	36,190,401
Accumulated depreciation and impairment losses	(27,074,105)	(27,260,403)	(27,369,727)
Property, plant and equipment - total	8,719,755	8,812,174	8,820,674

9. Corporate Bonds

During the first three months of the previous fiscal year, NTT Finance Corporation redeemed the 45th series of unsecured notes (principal amount: ¥15,000 million; interest rate: 0.15%; issuance date: May 27, 2014; maturity date: June 20, 2017), and NTT Finance Corporation issued the 6th series of Euro-denominated bonds (principal amount: € 41.7 million; interest rate: 1.302%; issuance date: May 30, 2017; maturity date: May 28, 2027) and the 7th series of Eurodollar bonds (principal amount: U.S.$500 million; interest rate: three-month U.S. LIBOR + 0.53%; issuance date: June 29, 2017; maturity date: June 29, 2020).

During the first three months of the current fiscal year, NTT DOCOMO redeemed 15th series of corporate unsecured notes (principal amount: ¥80,000 million; yield: 1.96%; issuance date: June 11, 2008; maturity date: June 20, 2018), NTT Finance Corporation redeemed 42th series of corporate unsecured notes (principal amount: ¥20,000 million; yield: 0.50%; issuance date: May 28, 2013; maturity date: June 20, 2018) and NTT Finance Corporation issued the 11th series of Euro-denominated bonds (principal amount: € 60 million; interest rate: 1.278%; issuance date: May 22, 2018; maturity date: May 22, 2028).

10. Equity and Other Equity Items

(1) Number of Outstanding Shares

The following table shows the number of outstanding shares and treasury stock during the fiscal year ended March 31, 2018 and the three months ended June 30, 2018.

(shares)

	Issued Shares	Treasury Stock
April 1, 2017	2,096,394,470	81,026,959
Purchase of treasury stock under resolution of the board of directors	–	44,239,800
Repurchase of shares based on less-than-one-unit share purchase demand	–	54,223
Disposal of treasury stock based on additional less-than-one-unit share purchase demand	–	(2,424)
March 31, 2018	2,096,394,470	125,318,558
Purchase of treasury stock under resolution of the board of directors	–	20,778,000
Repurchase of shares based on less-than-one-unit share purchase demand	–	6,831
Disposal of treasury stock based on additional less-than-one-unit share purchase demand	–	(314)
June 30, 2018	2,096,394,470	146,103,075

Based on the provisions of the NTT Act, NTT must obtain authorization from the Minister of Internal Affairs and Communications for the (1) issuance of new shares or bonds with share acquisition rights; (2) (i) amendment of the Articles of Incorporation, (ii) appropriation of retained earnings, (iii) resolutions on merger or dissolution; (3) transfer of critical telecommunications equipment and establishment of mortgage rights.

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 from December 2016 through 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.

On September 25, 2017, the Board of Directors resolved that NTT may acquire up to 30 million shares of its outstanding common stock for an amount in total not exceeding ¥150 billion from September 26, 2017 through March 31, 2018. Based on this resolution, NTT repurchased 26,946,400 shares of its common stock for a total purchase price of ¥150,000 million from October, 2017 through December, 2017.

On February 21, 2018, the Board of Directors resolved that NTT may acquire up to 31 million shares of its outstanding common stock for an amount in total not exceeding ¥150 billion from February 22, 2018 through June 30, 2018. Based on this resolution, NTT repurchased 29,178,000 shares of its common stock for a total purchase price of ¥150,000 million from March, 2018 through May, 2018.

(2) Put Options Granted to Non-Controlling Interests

With regard to written put options for subsidiary shares granted by NTT Group to the owners of non-controlling interests, the amounts deducted from additional paid-in capital were ¥81,900 million, ¥56,546 million and ¥51,931 million, respectively, at the transition date to IFRS, at the close of the fiscal year ended March 31, 2018, and in the three months ended June 30, 2018.

(3) Other Components of Equity

The following tables show the breakdown of and changes in other components of equity in the three months ended June 30, 2017 and the three months ended June 30, 2018.

Three Months Ended June 30, 2017

(Millions of yen)

	Unrealized Gain or Loss on Securities	Cash flow hedge	Remeasurements of defined benefit plans	Foreign currency translation adjustment	Total
April 1, 2017	129,879	(5,579)	–	55,153	179,453
Other comprehensive income	2,987	1,987	(150)	15,267	20,091
Transfer to retained earnings	–	–	150	–	150
June 30, 2017	132,866	(3,592)	–	70,420	199,694

Three Months Ended June 30, 2018

(Millions of yen)

	Change in the fair value of financial assets measured at fair value through other comprehensive income*1	Cash Flow Hedge	Remeasurements of Defined Benefit Plans	Foreign Currency Translation Adjustment	Total
March 31, 2018	146,013	(3,718)	–	58,343	200,638
Cumulative effect of adoption of IFRS 9 “Financial Instruments”	507	(2,939)	–	–	(2,432)
April 1, 2018	146,520	(6,657)	–	58,343	198,206
Other comprehensive income	10,558	629	(409)	(339)	10,439
Transfer to retained earnings	(286)	–	409	–	123
Transfer to non-financial assets, etc.	–	3,905	–	–	3,905
June 30, 2018	156,792	(2,123)	–	58,004	212,673

*1. For March 31, 2018, the amount of unrealized gains or losses on securities are shown as calculated in accordance with U.S. GAAP.

(4) Dividends

Matters Concerning Dividends

The following table shows the amount of dividends paid out in the three months ended June 30, 2017 and the three months ended June 30, 2018.

Resolution	Class of Shares	Source of Dividends	Total Dividend (Millions of yen)	Dividend per Share (Yen)	Record Date	Effective Date
June 27, 2017 Ordinary General Meeting of Shareholders	Common shares	Retained earnings	120,922	60	March 31, 2017	June 28, 2017
June 26, 2018 Ordinary General Meeting of Shareholders	Common shares	Retained earnings	147,831	75	March 31, 2018	June 27, 2018

11. Operating Revenues

(1) Breakdown of Revenues

① Relationship between Components of Revenues and Segment Revenues

Three Months Ended June 30, 2017 (April 1, 2017 to June 30, 2017) (Millions of yen)

		Segment					
		Regional Communications Business	Long Distance and International Communications Business	Mobile Communications Business	Data Communications Business	Other Business	Total
Main Services	Fixed voice related services	238,451	51,749	–	–	–	290,200
	Mobile voice related services	–	–	227,194	–	–	227,194
	IP/packet communications services	312,051	98,179	528,189	–	1,044	939,463
	Sales of telecommunications equipment	18,322	4,597	156,861	–	–	179,780
	System integration services	20,407	319,323	–	447,831	4,648	792,209
	Other services	47,652	34,628	205,718	–	91,877	379,875
	Total	636,883	508,476	1,117,962	447,831	97,569	2,808,721

Three Months Ended June 30, 2018 (April 1, 2018 to June 30, 2018) (Millions of yen)

		Segment					
		Regional Communications Business	Long Distance and International Communications Business	Mobile Communications Business	Data Communications Business	Other Business	Total
Main Services	Fixed voice related services	224,471	47,691	–	–	–	272,162
	Mobile voice related services	–	–	234,539	–	–	234,539
	IP/packet communications services	293,315	104,346	539,224	–	1,093	937,978
	Sales of telecommunications equipment	18,000	1,490	178,531	–	–	198,021
	System integration services	19,881	333,290	–	478,459	6,078	837,708
	Other services	51,375	29,739	207,946	–	83,264	372,324
	Total	607,042	516,556	1,160,240	478,459	90,435	2,852,732

In its five business segments of Regional Communications Business, Long Distance and International Communications Business, Mobile Communications Business, Data Communications Business, and Other Business, NTT Group provides the following six services: fixed voice related services, mobile voice related services, IP/packet communications services, system integration service, sales of telecommunications equipment, and other services.

Fixed Voice Related Services

In the Regional Communications Business and Long Distance and International Communications Business, fixed voice related services including telephone subscriber services, INS-Net, conventional leased circuits, and high-speed digital circuits are provided to consumers and enterprise customers. NTT Group recognizes revenue upon provision of fixed voice related services. Fixed voice related services are billed monthly.

Mobile Voice Related Services

In the Mobile Communications Business Segment, mobile voice related services including voice call services in LTE (Xi), are provided to consumers and enterprise customers. NTT Group recognizes revenue upon provision of mobile voice related services. Mobile voice related services are billed monthly.

Certain rate plans include allowances in the basic monthly charges, which are deducted from the communication charges for that month as communications allowances. In some of its billing plans, NTT group determines an amount of telecommunications traffic (for phone calls) available within the scope of the fixed charge of each billing plan, offering a service of automatically carrying forward to the following month the unused amount of telecommunications traffic out of the amount available in a relevant month. In these services, NTT group recognizes the amount that was not used in a relevant month but is expected to be used in the following or subsequent months as revenue when the performance obligation is satisfied, namely, when the amount carried over is used.

In addition, NTT offers a points program whereby points are granted to customers in line with use of mobile voice related services, and points that are rewarded can be used to buy products, use as credits against communications charges, and for other uses. That portion of granted points which is expected to be used by the customer in future is recognized as a performance obligation. Transaction prices are allocated based on independent selling price ratios for these performance obligations. Transaction prices allocated to the performance obligations under the points program are deferred as “Other current liabilities” in the consolidated statement of financial position, and revenue is recognized in line with points usage.

Activation fees, which constitute revenues from non-recurring upfront fees, are recognized as revenue over the period of provision of the monthly support services after being deferred.

IP/Packet Communications Services

In the Regional Communications Business Segment, services are provided including FLET'S Hikari and Hikari Collaboration Model, in which fiber-optic access services are provided on a wholesale basis to various operators; in the Long Distance and International Communications Business, services are provided such as Arcstar Universal One, IP-VPN and OCN; and in the Mobile Communications Business, services are provided such as the LTE (Xi) packet service and IP/packet communications services including DOCOMO Hikari. The main performance obligations are identified as described below and recognized as revenue based on the content of these services and the pattern of transfer to customers.

In the Regional Communications Business Segment and Long Distance and International Communications Business Segment, NTT Group recognizes revenue upon the provision of IP/packet communications services. In the case of IP/packet communications services for consumers, these are billed monthly; for enterprise customers, these are billed at the contractually agreed time.

Non-recurring upfront fees such as installation charges and activation fees are deferred and recognized as revenues over the estimated average period of the end customer's subscription for FLET'S Hikari and Hikari Collaboration Model.

Additionally, new sales subsidies paid to collaboration model operators under the Hikari Collaboration Model are deferred as “Other non-current liabilities” in the consolidated statement of financial position, and are deducted from revenues for three years from the time of payment. Sales subsidies for ongoing use is paid at the time of annual contract renewal and an estimated amount of those subsidies mainly based on histrical performance is deducted from revenues for one year as variable consideration.

In the Mobile Communications Business Segment, NTT Group recognizes revenue upon the provision of IP/packet communications services.

Certain rate plans offer a service in which the amounts of telecommunications allowances (for data communications) that can be used per period are based on a specified fixed price, and any portions of those allowances that are not used are automatically carried over. For these services, the portion of revenue corresponding to the voice or data allowances that were unused in the current month but are expected to be used in the following month or afterward is deferred, and deferred amounts are recognized as revenue when such allowances are used.

In the Regional Communications Business Segment, Long Distance and International Communications Business Segment and Mobile Communications Business Segment, NTT Group offers a points program whereby points that have been granted to customers in line with their IP/packet communications services usage can be exchanged to buy products, use as credits against communications charges, and for other uses. That portion of granted points which is expected to be used by the customer in future is recognized as a performance obligation. Transaction prices are allocated in relation to these performance obligations based on independent selling price ratios. Transaction prices allocated to the performance obligations under the points program are deferred as “Other current liabilities” in the consolidated statement of financial position, and revenue is recognized in line with points usage.

Sales of Telecommunications Equipment

The Mobile Communications Business Segment mainly comprises the sale of telecommunications equipment to agent resellers and other buyers. NTT Group recognizes revenue upon delivery of the equipment to agent resellers and other purchasers. Upon delivery to agent resellers, agency commissions and incentives given to subscribers are recognized as a reduction of sales of telecommunication equipment. With regard to sales of telecommunication equipment in the Mobile Communications Business, NTT Group provides subscribers with the option to select installment payments for the purchase of the handset from the agent reseller or other purchaser 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 communication 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 NTT Group revenues.

System Integration Services

In the Regional Communications Business Segment and Long Distance and International Communications Business Segment, NTT Group provides system integration services such as system development services, and in the Long Distance and International Communications Business Segment and Data Communications Business Segment, NTT Group provides system integration services such as integrated IT solution services, in each case to enterprise customers. With respect to system integration services, NTT Group recognizes revenue over the course of the installation period, as the benefits transfer to customers as the installation progresses. As cost is deemed to arise in proportion to the degree of installation progress, the cost-to-cost method is used for recognition of revenue. Contract consideration is usually invoiced upon delivery.

With respect to allowance for losses when losses are expected to arise, an allowance is made for the consolidated fiscal year that included the date on which it became clear that a loss would arise.

Other Services

In the Mobile Communications Business Segment, NTT Group offers services including distribution services for movies, music, e-books and other entertainment, financial and payment services, shopping services, services related to everyday life, and mobile phone protection services.

In the Regional Communications Business Segment and Other Business Segment, NTT Group primarily provides services including real estate rental, building maintenance, systems development, leasing, and research and development.

With respect to these services, NTT Group recognizes revenues at either the time delivery has been completed or at the time the service has been provided.

12. Fair Value of Financial Instruments

At the transition date to IFRS and for the fiscal year ended March 31, 2018, NTT applies the previous accounting standards (U.S. GAAP) pursuant to the exemption provisions of IFRS 7 and IFRS 9 based on IFRS 1, except for financial instruments not included within the scope of application of IFRS 9. NTT has applied IFRS 7 and IFRS 9 for the three months ended June 30, 2018.

(1) Fair Value of Financial Instruments Not Measured at Fair Value

At the transition date to IFRS and the close of the fiscal year ended March 31, 2018, the estimated fair value of financial instruments which was not measured at fair value (excluded not required to disclose the fair value according to previous accounting standards) was as shown in the table below. With the exception of the following, carrying amounts largely correspond to fair value, and so are not included in the table.

(Millions of yen)

	As of Transition Date to IFRS (April 1, 2017)		As of March 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans receivable	287,441	287,754	345,048	345,238
Long-term debt (including current portion or balance due for repayment)	3,862,878	3,966,128	3,576,157	3,641,945

Loans receivable in the above table are primarily included in Other financial 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 NTT Group for similar transactions.

The fair values of long-term debt referred to above, including the current portion or balance due for repayment, are measured by discounting future cash flows using discount rates for similar debt instruments of comparable maturities currently offered by NTT Group, except for floating rate debt where the carrying amount and fair value are deemed to be almost equivalent.

During the three months ended June 30, 2018, the carrying amount and fair value of the main financial instruments was as described below. With the exception of the following, carrying amounts largely correspond to fair value, and so are not included in the table. The measurement method for fair value is unchanged from the transition date to IFRS and the end of the fiscal year ended March 31, 2018.

(Millions of yen)

	Three Months Ended June 30, 2018	
	Carrying amount	Fair value
Long-term debt (including current portion or balance due for repayment)	3,415,017	3,439,736

(2) Fair Value Hierarchy

The fair value of financial instruments is determined based on market information, including market prices, and calculation procedures, such as the market approach, income approach and cost approach. The assumptions (inputs) used to measure fair value comprise the following three levels:

・Level 1

Unadjusted market prices for identical assets or liabilities in active markets that the company is able to access as of the measurement date

・Level 2

Among inputs derived principally from observable market data for assets or liabilities, prices other than market prices included in Level 1

・Level 3

Unobservable inputs for assets or liabilities

Changes between levels in the fair value hierarchy are recognized as having occurred at the end of each quarter.

The assets and liabilities measured at fair value by NTT at the transition date to IFRS and the close of the fiscal year ended March 31, 2018 are as follows.

As of Transition Date to IFRS(April 1, 2017) (Millions of yen)

Classification	Fair Value			
	Level 1	Level 2	Level 3	Total
Available-for-sale securities:				
Domestic equity securities	198,482	–	–	198,482
Foreign equity securities	135,913	–	–	135,913
Domestic debt securities	214	58,759	165	59,138
Foreign debt securities	9	37,957	233	38,199
Derivatives:				
Forward exchange contracts	–	1,142	–	1,142
Interest rate swap agreements	–	297	–	297
Currency swap agreements	–	71,930	–	71,930
Total financial assets	334,618	170,085	398	505,101
Derivatives:				
Forward exchange contracts	–	1,399	–	1,399
Interest rate swap agreements	–	3,937	–	3,937
Currency swap agreements	–	12,555	–	12,555
Currency option agreements	–	1,336	–	1,336
Total financial liabilities	–	19,227	–	19,227

Fiscal Year Ended March 31, 2018 (Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Available-for-sale securities:				
Domestic equity securities	232,886	–	–	232,886
Foreign equity securities	116,313	–	–	116,313
Domestic debt securities	–	76,340	172	76,512
Foreign debt securities	97	40,210	–	40,307
Derivatives:				
Forward exchange contracts	–	675	–	675
Interest rate swap agreements	–	942	–	942
Currency swap agreements	–	6,721	–	6,721
Total financial assets	349,296	124,888	172	474,356
Derivatives:				
Forward exchange contracts	–	4,543	–	4,543
Interest rate swap agreements	–	3,079	–	3,079
Currency swap agreements	–	27,788	–	27,788
Currency option agreements	–	842	–	842
Total financial liabilities	–	36,252	–	36,252

1. In the fiscal year ended March 31, 2018, there was no material switching between levels.
2. Level 3 reconciliation is not disclosed, as there had been no material fluctuations among financial instruments classified as Level 3 in the fiscal year ended March 31, 2018.
3. As well as the above financial instruments measured at fair value on a recurring basis, there was no material security which was applied cost method investments (equity securities) where a decline in value is evaluated as other than temporary, the investment is written down to its fair value under U.S. GAAP.

The assets and liabilities measured at fair value by NTT at the close of the three months ended June 30, 2018 are as follows.

June 30, 2018 (Millions of yen)

Classification	Fair Value			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit/loss				
Debt securities	–	93,621	–	93,621
Investments in capital	–	–	30,628	30,628
Loans receivable	–	167,365	–	167,365
Derivatives	–	3,705	–	3,705
Financial assets measured at fair value through other comprehensive income				
Equity securities	368,358	–	58,974	427,332
Hedging instrument used for cash flow hedging				
Derivatives	–	14,424	–	14,424
Total	368,358	279,115	89,602	737,075
Financial liabilities:				
Financial liabilities measured at fair value through profit/loss				
Derivatives	–	1,749	–	1,749
Hedging instrument used for cash flow hedging				
Derivatives	–	17,024	–	17,024
Total	–	18,773	–	18,773

1. In the three months ended June 30, 2018, there was no material switching between levels.
2. Level 3 reconciliation is not disclosed, as there was no material fluctuation among financial instruments classified as Level 3 in the three months ended June 30, 2018.

Valuation Techniques Used to Measure Fair Value of Financial Instruments

The valuation techniques used in the consolidated statement of financial position to measure fair value of financial instruments classified as Level 2 and Level 3 are as follows:

(i) Debt Securities

Debt securities include corporate bonds and other bonds, and their fair value is measured using underlying conditions that are observable in the market, such as credit ratings and discount rates, based on pricing models developed independently by financial and other institutions.

(ii) Loans Receivable

The fair values of loans receivable are calculated primarily by discounting contractual cash flows using interest rates currently available to NTT Group for similar transactions.

(iii) Derivatives

Derivatives mainly comprise forward exchange contracts, currency swap agreements and interest rate swap agreements. The fair value of forward exchange contracts is measured based on underlying conditions that are observable in the market, such as exchange rates. The fair value of currency swap agreements and interest rate swap agreements is measured using underlying conditions that are observable in the market, such as LIBOR (London Inter-bank Offered Rate), swap rates and exchange rates, discounting future cash flow to present value.

(iv) Equity Securities and Investments in capital

The fair value of equity securities and investments in capital was measured using an evaluation model that is selected through appropriate processes and that suits the circumstances of the entity that is the target of the investment, including a reasonable estimate of inputs. As a result, these fair value measurements are primarily measured using the adjusted net asset method.

13. Subsequent Events

None

14. First-time Adoption of International Financial Reporting Standards (“IFRS”)

(1) Transition to Financial Reporting in Accordance with IFRS

NTT has prepared these condensed consolidated financial statements in accordance with IFRS.

IFRS 1 requires that a company adopting IFRS for the first time applies IFRS retrospectively. However, as an exception under IFRS 1, retrospective application is prohibited for certain standards, for which application of IFRS is made from the IFRS transition date and thereafter. Additionally, under IFRS 1, certain exemption provisions may be voluntarily applied for certain standards required by IFRS. The effect of applying these provisions has been recognized at the IFRS transition date and an adjustment for the impact has been made within Retained earnings or Other components of equity.

The main voluntary exemption provisions applied by NTT are described below.

(i) Business Combinations

NTT Group applies the exemption provisions stipulated in IFRS 1, and has not applied IFRS 3 retrospectively to business combinations arising prior to April 1, 2002. Goodwill resulting from business combinations arising prior to April 1, 2002 has been recognized using the carrying amount based on U.S. GAAP. For goodwill generated by business combinations that occurred prior to the transition date to IFRS, an impairment test was implemented as of the transition date, whether or not there were indicators of any impairment loss.

(ii) Deemed Cost

NTT Group applies the exemption provisions stipulated in IFRS 1, and for certain tangible fixed assets and investment property, uses the fair value as of the transition date to IFRS as the deemed cost at that date.

(iii) Operating Revenues

NTT Group applies the exemption provisions stipulated in IFRS 1 and NTT has retrospectively applied IFRS 15 through the practical expedient set out in (d) under paragraphC5 of IFRS 15. In accordance with the provisions of the standard, in relation to the amount of consideration for goods or services to be provided from the next fiscal year and the explanation of when this amount is expected to be recognized as revenue, information concerning the IFRS transition date and the fiscal year ended March 31, 2018 is omitted.

(iv) Exemption from Restatement of Comparative Information in the Application of IFRS 9

NTT Group applies the exemption provisions stipulated in IFRS 1. At the transition date to IFRS and in the fiscal year ended March 31, 2018, items included within the scope of application of IFRS 9 have been recognized and measured using previous U.S. GAAP accounting standards, without restatement in accordance with IFRS 9.

(2) Adjustment from U.S. GAAP to IFRS

Upon transitioning to IFRS, NTT has adjusted the amounts in the consolidated financial statements that were prepared based on U.S. GAAP. The impact on NTT Group as a result of transitioning from U.S. GAAP to IFRS in terms of financial position, results of operations and cash flows is explained in the following adjustment tables and in the notes to these tables.

In the adjustment tables, “Reclassification” shows those items that have no impact on equity and comprehensive income, and “Recognition & Measurement Difference” shows those items that have an impact on equity and comprehensive income.

Adjustments to Equity at the Transition Date to IFRS (April 1, 2017)

Consolidated Statement of Financial Position (Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Assets					(Assets)
Current assets					Current assets
Cash and cash equivalents	925,213	172,176	(21,616)	1,075,773	Cash and cash equivalents
Short-term investments	63,844	103,734	(168)	167,410	Other financial assets
Notes and accounts receivable, trade	2,699,708	932,534	(8,665)	3,623,577	Trade and other receivables
Allowance for doubtful accounts	(48,626)	48,626	–	–	
Accounts receivable, other	505,145	(505,145)	–	–	
Inventories	365,379	(7,767)	(30,894)	326,718	Inventories
Prepaid expenses and other current assets	573,170	(208,786)	19,122	383,506	Other current assets
Deferred income taxes	228,590	(228,590)	–	–	
Total current assets	5,312,423	306,782	(42,221)	5,576,984	Total current assets
Property, plant and equipment					Non-current assets
Telecommunications equipment	11,046,115	–	–	–	
Telecommunications service lines	16,064,732	–	–	–	
Buildings and structures	6,147,869	–	–	–	
Machinery, vessels and tools	2,032,389	–	–	–	
Land	1,292,685	–	–	–	
Construction in progress	421,819	–	–	–	
Accumulated depreciation	(27,286,588)	–	–	–	
Net property, plant and equipment	9,719,021	(989,364)	(9,902)	8,719,755	Property, plant and equipment
	–	1,032,675	(40,358)	992,317	Investment property
Investments and other assets					
Investments in affiliated companies	484,596	–	44,385	528,981	Investments accounted for using equity method
Marketable securities and other investments	495,290	517,251	(1,995)	1,010,546	Other financial assets
Goodwill	1,314,645	–	(433,353)	881,292	Goodwill
Software	1,209,485	(1,209,485)	–	–	
Other intangible assets	453,918	1,188,084	(32,404)	1,609,598	Intangible assets
Other assets	1,492,076	(887,552)	56,447	660,971	Other non-current assets
Deferred income taxes	768,871	228,590	245,822	1,243,283	Deferred tax assets
Total investments and other assets	6,218,881	–	–	–	
	15,937,902	(119,801)	(171,358)	15,646,743	Total non-current assets
Total assets	21,250,325	186,981	(213,579)	21,223,727	Total assets

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Liabilities and Equity					(Liabilities and Equity)
Current liabilities					Current liabilities
Short-term loans borrowings	227,207	864,726	(12,690)	1,079,243	Short-term debt
Current portion of long-term debt	681,904	(681,904)	–	–	
Accounts payable, trade	1,612,996	181,994	2,554	1,797,544	Trade and other payables
Current portion of obligations under capital leases	14,430	9,527	21,770	45,727	Other financial liabilities
Accrued payroll	443,308	16,147	(9,095)	450,360	Accrued payroll
Accrued taxes on income	239,755	(367)	(5,571)	233,817	Accrued taxes on income
Accrued consumption tax	75,083	(75,083)	–	–	
Advances received	324,342	(324,342)	–	–	
Other	512,368	174,131	272,363	958,862	Other current liabilities
Total current liabilities	4,131,393	164,829	269,331	4,565,553	Total current liabilities
Long-term liabilities					Non-current liabilities
Long-term debt (excluding current portion)	3,168,478	–	11,167	3,179,645	Long-term debt
Obligations under capital leases (excluding current portion)	25,568	116,770	59,451	201,789	Other financial liabilities
Liability for employees’ retirement benefits	1,599,381	–	277,464	1,876,845	Defined benefit liabilities
Accrued liabilities for point programs	103,047	(103,047)	–	–	
Deferred income taxes	166,751	7,285	(74,998)	99,038	Deferred tax liabilities
Other	497,132	1,144	(239,848)	258,428	Other non-current liabilities
Total long-term liabilities	5,560,357	22,152	33,236	5,615,745	Total non-current liabilities
Total liabilities	9,691,750	186,981	302,567	10,181,298	Total liabilities
Redeemable non-controlling interests	50,819	–	(50,819)	–	
Equity					Equity
NTT Shareholders’ equity					NTT Shareholders’ equity
Common stock	937,950	–	–	937,950	Common stock
Additional paid-in capital	2,862,035	–	(451,463)	2,410,572	Additional paid-in capital
Retained earnings	5,626,155	–	(145,516)	5,480,639	Retained earnings
Accumulated other comprehensive income (loss)	1,562	–	177,891	179,453	Other components of equity
Treasury stock	(375,223)	–	–	(375,223)	Treasury stock
Total NTT shareholders’ equity	9,052,479	–	(419,088)	8,633,391	Total NTT shareholders’ equity
Non-controlling interests	2,455,277	–	(46,239)	2,409,038	Non-controlling interests
Total equity	11,507,756	–	(465,327)	11,042,429	Total equity
Total liabilities and equity	21,250,325	186,981	(213,579)	21,223,727	Total liabilities and equity

Adjustment to Equity at Close of the Three Months Ended June 30, 2017

Consolidated Statement of Financial Position (Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Assets					(Assets)
Current assets					Current assets
Cash and cash equivalents	961,325	209,159	(8,832)	1,161,652	Cash and cash equivalents
Short-term investments	87,035	103,847	(3,604)	187,278	Other financial assets
Notes and accounts receivable, trade	2,391,458	962,373	7,143	3,360,974	Trade and other receivables
Allowance for doubtful accounts	(50,305)	50,305	–	–	
Accounts receivable, other	576,483	(576,483)	–	–	
Inventories	404,368	(8,987)	(36,352)	359,029	Inventories
Prepaid expenses and other current assets	687,395	(170,421)	(11,140)	505,834	Other current assets
Total current assets	5,057,759	569,793	(52,785)	5,574,767	Total current assets
Property, plant and equipment					Non-current assets
Telecommunications equipment	11,014,159	–	–	–	
Telecommunications service lines	16,102,470	–	–	–	
Buildings & structures	6,191,397	–	–	–	
Machinery, vessels and tools	2,078,270	–	–	–	
Land	1,292,943	–	–	–	
Construction in progress	452,510	–	–	–	
Accumulated depreciation	(27,406,862)	–	–	–	
Net property, plant and equipment	9,724,887	(985,493)	(14,808)	8,724,586	Property, plant and equipment
	–	1,028,453	(26,395)	1,002,058	Investment property
Investments and other assets					
Investments in affiliated companies	487,890	–	38,805	526,695	Investments accounted for using equity method
Marketable securities and other investments	499,208	524,400	(2,964)	1,020,644	Other financial assets
Goodwill	1,317,887	154	(421,455)	896,586	Goodwill
Software	1,205,638	(1,205,638)	–	–	
Other intangible assets	445,215	1,184,909	(23,397)	1,606,727	Intangible assets
Other assets	1,508,162	(888,674)	32,470	651,958	Other non-current assets
Deferred income taxes	970,347	–	259,224	1,229,571	Deferred tax assets
Total investments and other assets	6,434,347	–	–	–	
	16,159,234	(341,889)	(158,520)	15,658,825	Total non-current assets
Total assets	21,216,993	227,904	(211,305)	21,233,592	Total assets

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Liabilities and Equity					(Liabilities and Equity)
Current liabilities					Current liabilities
Short-term borrowings	256,899	1,185,221	16,607	1,458,727	Short-term debt
Current portion of long-term debt	783,976	(783,976)	–	–	
Accounts payable, trade	1,157,395	308,989	2,809	1,469,193	Trade and other payables
Current portion of obligations under capital leases	13,563	12,938	25,372	51,873	Other financial liabilities
Accrued payroll	390,344	–	(3,907)	386,437	Accrued payroll
Accrued taxes on income	121,175	–	637	121,812	Accrued taxes on income
Accrued consumption tax	98,445	(98,445)	–	–	
Advances received	354,604	(354,604)	–	–	
Deposits received	379,847	(379,847)	–	–	
Other	404,292	307,041	207,138	918,471	Other current liabilities
Total current liabilities	3,960,540	197,317	248,656	4,406,513	Total current liabilities
Long-term liabilities					Non-current liabilities
Long-term debt (excluding current portion)	3,186,397	–	(8,180)	3,178,217	Long-term debt
Obligations under capital leases (excluding current portion)	23,323	117,502	62,357	203,182	Other financial liabilities
Liability for employees’ retirement benefits	1,611,421	–	269,463	1,880,884	Defined benefit liabilities
Accrued liabilities for point programs	89,425	(89,425)	–	–	
Deferred income taxes	152,404	–	(57,822)	94,582	Deferred tax liabilities
Other	502,281	2,510	(234,842)	269,949	Other non-current liabilities
Total long-term liabilities	5,565,251	30,587	30,976	5,626,814	Total non-current liabilities
Total liabilities	9,525,791	227,904	279,632	10,033,327	Total liabilities
Redeemable non-controlling interests	53,808	–	(53,808)	–	
Equity					Equity
NTT Shareholders’ equity					NTT Shareholders’ equity
Common stock	937,950	–	–	937,950	Common stock
Additional paid-in capital	2,856,019	–	(458,116)	2,397,903	Additional paid-in capital
Retained earnings	5,777,614	–	(128,758)	5,648,856	Retained earnings
Accumulated other comprehensive income (loss)	9,259	–	190,435	199,694	Other components of equity
Treasury stock	(418,507)	–	–	(418,507)	Treasury stock
Total NTT shareholders’ equity	9,162,335	–	(396,439)	8,765,896	Total NTT shareholders’ equity
Non-controlling interests	2,475,059	–	(40,690)	2,434,369	Non-controlling interests
Total equity	11,637,394	–	(437,129)	11,200,265	Total equity
Total liabilities and equity	21,216,993	227,904	(211,305)	21,233,592	Total liabilities and equity

Adjustment to Equity at Close of the Fiscal Year Ended March 31, 2018

Consolidated Statement of Financial Position (Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Assets					(Assets)
Current assets					Current assets
Cash and cash equivalents	780,300	129,032	(14,329)	895,003	Cash and cash equivalents
Short-term investments	31,641	93,525	(1,822)	123,344	Other financial assets
Notes and accounts receivable, trade	2,976,467	1,055,447	(9,687)	4,022,227	Trade and other receivables
Allowance for doubtful accounts	(52,332)	52,332	–	–	
Accounts receivable, other	662,190	(662,190)	–	–	
Inventories	393,582	(6,550)	(32,851)	354,181	Inventories
Prepaid expenses and other current assets	575,704	(106,416)	5,117	474,405	Other current assets
Total current assets	5,367,552	555,180	(53,572)	5,869,160	Total current assets
Property, plant and equipment					Non-current assets
Telecommunications equipment	10,917,851	–	–	–	
Telecommunications service lines	14,217,566	–	–	–	
Buildings and structures	6,280,584	–	–	–	
Machinery, vessels and tools	2,127,201	–	–	–	
Land	1,307,985	–	–	–	
Construction in progress	438,604	–	–	–	
Accumulated depreciation	(25,468,698)	–	–	–	
Net property, plant and equipment	9,821,093	(1,009,723)	804	8,812,174	Property, plant and equipment
	–	1,040,512	(38,211)	1,002,301	Investment property
Investments and other assets					
Investments in affiliated companies	502,936	–	36,406	539,342	Investments accounted for using equity method
Marketable securities and other investments	525,170	546,481	(2,852)	1,068,799	Other financial assets
Goodwill	1,329,275	–	(487,992)	841,283	Goodwill
Software	1,223,985	(1,223,985)	–	–	
Other intangible assets	394,489	1,201,689	(6,730)	1,589,448	Intangible assets
Other assets	1,590,636	(957,959)	12,314	644,991	Other non-current assets
Deferred income taxes	920,634	–	253,312	1,173,946	Deferred tax assets
Total investments and other assets	6,487,125	–	–	–	
	16,308,218	(402,985)	(232,949)	15,672,284	Total non-current assets
Total assets	21,675,770	152,195	(286,521)	21,541,444	Total assets

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Liabilities and Equity					(Liabilities and Equity)
Current liabilities					Current liabilities
Short-term borrowings	270,743	765,246	(18,245)	1,017,744	Short-term debt
Current portion of long-term debt	624,385	(624,385)	–	–	
Accounts payable, trade	1,613,516	191,794	6,413	1,811,723	Trade and other payables
Current portion of obligations under capital leases	12,567	11,993	26,151	50,711	Other financial liabilities
Accrued payroll	460,357	–	(5,350)	455,007	Accrued payroll
Accrued taxes on income	245,326	–	(4,656)	240,670	Accrued taxes on income
Accrued consumption tax	88,420	(88,420)	–	–	
Advances received	374,444	(374,444)	–	–	
Other	549,263	237,300	260,019	1,046,582	Other current liabilities
Total current liabilities	4,239,021	119,084	264,332	4,622,437	Total current liabilities
Long-term liabilities					Non-current liabilities
Long-term debt (excluding current portion)	2,947,945	–	5,910	2,953,855	Long-term debt
Obligations under capital leases (excluding current portion)	22,587	135,889	31,880	190,356	Other financial liabilities
Liability for employees' retirement benefits	1,619,907	–	240,617	1,860,524	Defined benefit liabilities
Accrued liabilities for point programs	105,037	(105,037)	–	–	
Deferred income taxes	128,833	–	(54,738)	74,095	Deferred tax liabilities
Other	529,959	2,259	(257,695)	274,523	Other non-current liabilities
Total long-term liabilities	5,354,268	33,111	(34,026)	5,353,353	Total non-current liabilities
Total liabilities	9,593,289	152,195	230,306	9,975,790	Total liabilities
Redeemable non-controlling interests	49,930	–	(49,930)	–	
Equity					Equity
NTT Shareholders' equity					NTT Shareholders' equity
Common stock	937,950	–	–	937,950	Common stock
Additional paid-in capital	2,853,613	–	(457,058)	2,396,555	Additional paid-in capital
Retained earnings	6,260,631	–	(122,280)	6,138,351	Retained earnings
Accumulated other comprehensive income (loss)	44,529	–	156,109	200,638	Other components of equity
Treasury stock	(610,742)	–	–	(610,742)	Treasury stock
Total NTT shareholders' equity	9,485,981	–	(423,229)	9,062,752	Total NTT shareholders' equity
Non-controlling interests	2,546,570	–	(43,668)	2,502,902	Non-controlling interests
Total equity	12,032,551	–	(466,897)	11,565,654	Total equity
Total liabilities and equity	21,675,770	152,195	(286,521)	21,541,444	Total liabilities and equity

Adjustment to Comprehensive Income for the Three Months Ended June 30, 2017 (April 1, 2017 to June 30, 2017)

Consolidated Statement of Profit or Loss (Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Operating revenues					Operating revenues
Fixed voice related services	290,200	–	–	–	
Mobile voice related services	228,736	–	–	–	
IP/packet communications services	949,165	–	–	–	
Revenues from the sale of telecommunications equipment	173,417	–	–	–	
System integration	782,506	–	–	–	
Other	385,758	–	–	–	
Total operating revenues	2,809,782	(3,894)	2,833	2,808,721	
Operating expenses					Operating expenses
Cost of services	554,873	(554,873)	–	–	
Cost of equipment sold	184,529	(184,529)	–	–	
Cost of system integration	561,091	(561,091)	–	–	
Depreciation and amortization	332,278	(332,278)	–	–	
Selling, general and administrative expenses	685,414	(685,414)	–	–	
	–	593,084	(1,470)	591,614	Personnel expenses
	–	1,295,941	9,980	1,305,921	Expenses for purchase of goods and services and other expenses
	–	332,278	(1,327)	330,951	Depreciation and amortization
	–	27,318	(19)	27,299	Expenses on disposal of fixed assets
	–	60,946	(32,668)	28,278	Taxes and dues
Total operating expenses	2,318,185	(8,618)	(25,504)	2,284,063	Total operating expenses
Operating income	491,597	4,724	28,337	524,658	Operating profit
Non-operating income (expenses)					
Interest and amortization of bond discounts and issue costs	8,329	18,559	114	27,002	Finance costs
Interest income	4,577	22,223	349	27,149	Finance income
Other, net	8,388	(8,388)	–	–	
	–	3,571	(566)	3,005	Share of profit (loss) of entities accounted for using equity method
Total non-operating income (expenses)	4,636	–	–	–	
Income before income taxes and equity in earnings (losses) of affiliated companies	496,233	3,571	28,006	527,810	Profit (loss) before tax
Income tax expense (benefit)	152,398	–	9,844	162,242	Income taxes
Current	156,776	–	–	–	
Deferred	(4,378)	–	–	–	

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Income before equity in earnings (losses) of affiliated companies	343,835	–	–	–	
Equity in earnings (losses) of affiliated companies	3,571	(3,571)	–	–	Share of profit (loss) of entities accounted for using equity method
Net income	347,406	–	18,162	365,568	Profit
					Profit attributable to
NTT	271,472	–	17,817	289,289	NTT
Non-controlling interests	75,934	–	345	76,279	Non-controlling interests

Consolidated Statement of Comprehensive Income (Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Net income	347,406	－	18,162	365,568	Profit
Other comprehensive income (loss), net of tax					Other comprehensive income (net of tax)
					Items that will not be reclassified to profit or loss
	－	－	(55)	(55)	Share of other comprehensive income of affiliated companies accounted for by the equity method
Pension liability adjustments	2,093	－	(2,314)	(221)	Remeasurements of defined benefit plans
	－	－	－	(276)	Total of items that will not be reclassified to profit or loss
					Items that may be reclassified to profit or loss
Unrealized gain (loss) on securities	4,123	－	(1,459)	2,664	Unrealized gain (loss) on securities
Unrealized gain (loss) on derivative instruments	2,665	－	(549)	2,116	Cash flow hedge
Foreign currency translation adjustments	1,782	－	24,567	26,349	Foreign currency translation adjustments
	－	－	(3,954)	(3,954)	Share of other comprehensive income of affiliated companies accounted for by the equity method
	－	－	－	27,175	Total of items that may be reclassified to profit or loss
Total other comprehensive income (loss)	10,663	－	16,236	26,899	Total other comprehensive income (net of tax)
Total comprehensive income (loss)	358,069	－	34,398	392,467	Total comprehensive income
					Comprehensive income attributable to
NTT	278,685	－	30,695	309,380	NTT
Non-controlling interests	79,384	－	3,703	83,087	Non-controlling interests

Adjustment to Comprehensive Income for the Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)

Consolidated Statement of Profit or Loss (Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Operating revenues					Operating revenues
Fixed voice related services	1,146,901	–	–	–	
Mobile voice related services	942,183	–	–	–	
IP/packet communications services	3,801,771	–	–	–	
Revenues from the sale of telecommunications equipment	843,548	–	–	–	
System integration	3,443,147	–	–	–	
Other	1,622,037	–	–	–	
Total operating revenues	11,799,587	(7,813)	(9,626)	11,782,148	
Operating expenses					Operating expenses
Cost of services	2,348,541	(2,348,541)	–	–	
Cost of equipment sold	915,540	(915,540)	–	–	
Cost of system integration	2,471,347	(2,471,347)	–	–	
Depreciation and amortization	1,339,423	(1,339,423)	–	–	
Impairment losses					
Goodwill	18,864	(18,864)	–	–	
Metal cable related	124,800	(124,800)	–	–	
Other	18,505	(18,505)	–	–	
Selling, general and administrative expenses	2,919,724	(2,919,724)	–	–	
	–	2,408,321	(14,963)	2,393,358	Personnel expenses
	–	5,828,968	4,898	5,833,866	Expenses for purchase of goods and services and other expenses
	–	1,339,423	7,508	1,346,931	Depreciation and amortization
	–	153,656	505	154,161	Expenses on disposal of fixed assets
	–	162,169	15,700	177,869	Impairment losses
	–	237,269	(2,392)	234,877	Taxes and dues
Total operating expenses	10,156,744	(26,938)	11,256	10,141,062	Total operating expenses
Operating income	1,642,843	19,125	(20,882)	1,641,086	Operating profit
Non-operating income (expenses)					
Interest and amortization of bond discounts and issue costs	32,188	63,283	1,712	97,183	Finance costs
Interest income	19,094	22,387	2,483	43,964	Finance income
Income from arbitration award	147,646	–	–	147,646	Income from arbitration award
Other, net	(21,771)	21,771	–	–	
	–	5,551	(585)	4,966	Share of profit (loss) of entities accounted for using equity method
Total non-operating income (expenses)	112,781	–	–	–	

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Income before income taxes and equity in earnings (losses) of affiliated companies	1,755,624	5,551	(20,696)	1,740,479	Profit (loss) before tax
Income tax expense (benefit)	541,864	–	(8,084)	533,780	Income taxes
Current	532,525	–	–	–	
Deferred	9,339	–	–	–	
Income before equity in earnings (losses) of affiliated companies	1,213,760	–	–	–	
Equity in earnings (losses) of affiliated companies	5,551	(5,551)	–	–	Share of profit (loss) of entities accounted for using equity method
Net income	1,219,311	–	(12,612)	1,206,699	Profit
					Profit attributable to
NTT	909,695	–	(11,808)	897,887	NTT
Non-controlling interests	309,616	–	(804)	308,812	Non-controlling interests

Consolidated Statement of Comprehensive Income (Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Net income	1,219,311	–	(12,612)	1,206,699	Profit
Other comprehensive income (loss), net of tax					Other comprehensive income (net of tax)
					Items that will not be reclassified to profit or loss
	–	–	(432)	(432)	Share of other comprehensive income of affiliated companies accounted for by the equity method
Pension liability adjustments	23,712	–	8,998	32,710	Remeasurements of defined benefit plans
	–	–	–	32,278	Total of items that will not be reclassified to profit or loss
					Items that may be reclassified to profit or loss
Unrealized gain (loss) on securities	25,720	–	(10,118)	15,602	Unrealized gain (loss) on securities
Unrealized gain (loss) on derivative instruments	1,982	–	275	2,257	Cash flow hedge
Foreign currency translation adjustment	9,419	–	(1,493)	7,926	Foreign currency translation adjustment
	–	–	10,234	10,234	Share of other comprehensive income of affiliated companies accounted for by the equity method
	–	–	–	36,019	Total of items that may be reclassified to profit or loss
Total other comprehensive income (loss)	60,833	–	7,464	68,297	Total other comprehensive income (net of tax)
Total comprehensive income (loss)	1,280,144	–	(5,148)	1,274,996	Total comprehensive income
					Comprehensive income attributable to
NTT	956,013	–	(5,711)	950,302	NTT
Non-controlling interests	324,131	–	563	324,694	Non-controlling interests

(3) Notes on Adjustment to Equity and Comprehensive Income

(i) Impairment Loss on Non-Financial Assets

As the method of implementing the goodwill impairment test differs between U.S. GAAP and IFRS, a difference emerges in the amount recognized as an impairment loss. The main difference is the implementation unit of the impairment test.

Under U.S. GAAP, goodwill impairment tests are required to be carried out for each reporting unit (business segment or the constituent unit one level lower), whereas under IFRS, impairment tests are required be carried out for each cash-generating unit or cash-generating unit group. When transitioning to IFRS, NTT Group divided certain reporting units into several cash generating units.

For goodwill, an impairment test was implemented as of the transition date to IFRS, without regard to whether there were indicators of an impairment loss.

The impact of this change is as follows.

	Millions of yen		
	As of Transition date to IFRS April 1, 2017	As of June 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Goodwill	(74,972)	(74,195)	(88,019)
Other components of equity	1,454	921	(683)
Non-controlling interests	18,815	18,571	21,612
Adjustment to retained earnings	(54,703)	(54,703)	(67,090)

	Millions of yen	
	Three months ended June 30, 2017 (April 1, 2017 to June 30, 2017)	Fiscal Year ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Profit or Loss)		
Impairment losses	−	(15,360)
Increase(decrease) in adjustment to pretax income	−	(15,360)

(ii) Capitalization of Development Expenses

In order for them to fulfill the capitalization requirements under IFRS, certain development expenses that form part of R&D-related expenditure, which were recorded as expenses under U.S. GAAP, are recognized as assets in the consolidated statement of financial position and amortized using the straight line method over the estimated useful life.

The impact of this change is as follows.

	Millions of yen		
	As of Transition date to IFRS April 1, 2017	As of June 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Property, plant and equipment	15,998	15,885	19,448
Intangible assets	1,985	2,284	3,069
Deferred tax liabilities	(5,605)	(5,639)	(7,011)
Other components of equity	39	18	11
Non-controlling interests	(697)	(777)	(1,007)
Adjustment to retained earnings	11,720	11,771	14,510

	Millions of yen	
	Three months ended June 30, 2017 (April 1, 2017 to June 30, 2017)	Fiscal Year ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Profit or Loss)		
Expenses for purchase of goods and services and other expenses	1,433	10,237
Depreciation and amortization	(1,269)	(5,529)
Fixed asset retirement	(29)	(241)
Increase(decrease) in adjustment to pretax income	135	4,467

(iii) Deemed Cost

In the application of IFRS, NTT Group applies the exemption provisions stipulated in IFRS 1, and for certain tangible fixed assets and investment property, uses the fair value as of the transition date to IFRS as the deemed cost.

At the IFRS transition date, the previous carrying amount of tangible fixed assets and investment property using the deemed cost is ¥525,178 million, and the fair value is ¥413,281 million.

As a result of the above, at the IFRS transition date “tangible fixed assets” and “investment property” decrease by ¥66,353 million and ¥45,544 million, respectively, and the net difference of the adjustment, after deducting 34,789 million as an adjustment for deferred taxes, is included in “retained earnings” in the amount of ¥55,450 million and “non-controlling interests” in the amount of ¥21,658 million.

(iv) Revenues

With respect to the costs pertaining to the communications services provided in the Regional Communications Business, Long Distance and International Communications Business, and Mobile Communications Business, these costs were previously capitalized and amortized over the estimated average period of the subscription term, up to the amount of the non-recurring upfront fees, under U.S. GAAP, but under IFRS, the full amount of these respective costs will be capitalized. For this reason, part of the sales commissions and other charges that were previously treated as expenses will be recognized as additional assets. In addition, under U.S. GAAP, an allowance was made for points earned by customers in line with service usage, but under IFRS, part of the transaction consideration is recorded as contract liabilities and revenue is recognized when the points are used.

In the Mobile Communications Business, non-recurring upfront fees - the sum of income such as activation fees are deferred, and under U.S. GAAP, were recognized as revenues by type of service over the average expected period of subscription, under IFRS, these will be recognized over the period of provision of the monthly support services.

For cases in which the contract period is short and revenues are recognized as work progresses, and where the difference in the impact on financial position or results of operations is immaterial, or for cases in which it is difficult to make a reasonable estimate on the progress of the work, under U.S. GAAP, revenues were recognized upon completion of the contracted services, but under IFRS, revenues are recognized within the scope of the costs that arise.

The impact of these changes is as follows.

	Millions of yen		
	As of Transition Date to IFRS April 1, 2017	As of June 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Trade and other receivables	7	433	234
Inventories	(24,820)	(34,007)	(27,363)
Other current assets	6,844	13,121	4,784
Property, plant and equipment	–	(198)	(102)
Deferred tax assets	(55,776)	(51,501)	(46,542)
Other non-current assets	105,517	90,341	61,940
Trade and other payables	–	–	(908)
Other current liabilities	(123,295)	(121,654)	(128,301)
Other non-current liabilities	212,543	214,457	236,783
Non-controlling interests	(47,908)	(45,827)	(46,491)
Adjustment to retained earnings	73,112	65,165	54,034

	Millions of yen	
	Three Months Ended June 30, 2017 (April 1, 2017 to June 30, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Profit or Loss)		
Operating revenues	1,906	(32,357)
Personnel expenses	(4,421)	(5,473)
Expenses for purchase of goods and services and other expenses	(10,588)	10,202
Depreciation and amortization	(1,107)	(1,841)
Fixed asset retirement	(89)	(260)
Taxes and dues	(3)	(1)
Increase(decrease) in adjustment to pretax income	(14,302)	(29,730)

(v) Employee Benefits

Under U.S. GAAP, service cost, interest cost and expected return on plan assets associated with post-retirement benefits under the defined benefit plans were recognized as profit or loss. Of the actuarial gains (losses) and past service cost arising from the defined benefit plans, those that were not recognized as components of current net periodic pension cost recognized as other comprehensive income, which would be recognized later through profit or loss over a certain future period.

Under IFRS, on the other hand, current service cost and past service cost under the defined benefit plans are recognized as profit or loss, while net interest cost is recognized at an amount calculated by multiplying the net defined benefit liabilities (assets) by discount rates in as profit or loss. Remeasurement of the net defined benefit liabilities (assets) is recognized as other comprehensive income, which, upon its occurrence, is transferred directly from other components of equity to retained earnings, without going through profit or loss.

The Special Accounting Fund for the NTT CDBP is a social welfare pension scheme and is considered a multi-employer plan, and therefore contributions are recognized as expenses when contributions are required under U.S. GAAP. Under IFRS, on the other hand, although the scheme is a social welfare pension scheme, it is considered a defined benefit scheme, therefore the defined benefit obligations are recognized at the present value in the consolidated statement of financial position as defined benefit liabilities.

The impact of these changes is as follows.

	Millions of yen		
	As of Transition Date to IFRS April 1, 2017	As of June 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Deferred tax assets	78,628	77,759	67,643
Other non-current assets	153	(5,409)	(453)
Defined benefit liabilities	(277,371)	(268,986)	(241,746)
Other components of equity	(197,121)	(195,394)	(175,688)
Non-controlling interests	(2,698)	(2,826)	(4,169)
Adjustment to retained earnings	(398,409)	(394,856)	(354,413)

	Millions of yen	
	Three Months Ended June 30, 2017 (April 1, 2017 to June 30, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Profit or Loss)		
Personnel expenses	5,793	20,746
Expenses for purchase of goods and services and other expenses	185	741
Increase(decrease) in adjustment to pretax income	5,978	21,487

(vi) Levies

Under U.S. GAAP, expenditure of levies such as real estate tax was expensed over the relevant accounting period. Under IFRS, however, the amounts of the expenditure is recognized as an expense in full at the time when payment obligation arises.

The impact of these changes are as follows.

	Millions of yen		
	As of Transition Date to IFRS April 1, 2017	As of June 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Other current assets	−	(40,226)	−
Inventories	160	93	136
Deferred tax assets	41,563	31,265	40,505
Other current liabilities	(132,099)	(59,037)	(129,663)
Trade and other payables	(398)	−	(398)
Non-controlling interests	10,874	8,246	10,830
Adjustment to retained earnings	(79,900)	(59,659)	(78,590)

	Millions of yen	
	Three Months Ended June 30, 2017 (April 1, 2017 to June 30, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Profit or Loss)		
Taxes and dues	32,787	2,413
Increase(decrease) in adjustment to pretax income	32,787	2,413

(vii) Business Combinations

Under U.S. GAAP, with respect to the acquisition of non-controlling equity interests in a subsidiary that occurred prior to March 31, 2009, the acquisition cost was allocated to identifiable assets acquired and liabilities assumed, which were measured based on estimated fair value, with the excess of the acquisition cost over the net assets acquired recognized as goodwill. With regard to individual investments acquired in stages, the accounting method described above is applied, and the cumulative amount of their acquisition values is then reflected. Under IFRS, changes in a parent's ownership interest in a subsidiary that do not result in a loss of the parent's control over the subsidiary are accounted for as capital transactions and with regard to individual investments acquired in stages, these are remeasured at fair value on the acquisition date entailing acquisition of control.

In addition, under U.S. GAAP, the non-controlling interest in the acquired company at the time of business combination is measured at fair value. Under IFRS, on the other hand, the non-controlling interest in the acquired company at the time of business combination can be measured, for each individual combination transaction, at fair value or by proportional share of the non-controlling interest in the acquired company's identifiable net assets.

The impact of these changes is as follows.

	Millions of yen		
	As of Transition Date to IFRS April 1, 2017	As of June 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Property, plant and equipment	35,958	35,804	35,343
Investments accounted for using equity method	34,133	30,977	30,448
Goodwill	(384,201)	(384,661)	(384,584)
Intangible assets	(5,182)	(4,376)	(3,151)
Deferred tax assets	2,497	4,227	4,210
Deferred tax liabilities	1,734	1,481	1,099
Additional paid-in capital	260,796	260,796	266,166
Other components of equity	25,466	25,052	26,050
Non-controlling interests	70,932	73,702	68,029
Adjustment to retained earnings	42,133	43,002	43,610

	Millions of yen	
	Three Months Ended June 30, 2017 (April 1, 2017 to June 30, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Profit or Loss)		
Expenses for purchase of goods and services and other expenses	3	12
Depreciation and amortization	649	1,404
Share of profit (loss) of entities accounted for using equity method	(402)	(2,697)
Increase(decrease) in adjustment to pretax income	250	(1,281)

(viii) Income Taxes

With respect to taxable temporary differences pertaining to investments in domestic subsidiaries, under U.S. GAAP, unless the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the company expects that it will ultimately use that means, deferred tax liabilities are recognized. Under IFRS, on the other hand, in cases where it is probable that the temporary difference will not reverse in a foreseeable future, deferred tax liabilities for taxable temporary differences pertaining to investments in subsidiaries are not recognized.

In addition, under U.S. GAAP, deferred tax liabilities recognized for future taxable temporary differences pertaining to investments in affiliates are measured based on the future reversal of the taxable temporary differences resulting from the sale of investments. Under IFRS, on the other hand, the deferred tax liabilities recognized for future taxable temporary differences pertaining to investments in affiliates are measured based on the most likely manner of future reversal, such as the distribution of dividends.

The impact of these changes is as follows. This impact on consolidated statements of income is immaterial and omitted.

	Millions of yen		
	As of Transition Date to IFRS April 1, 2017	As of June 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Deferred tax liabilities	209,210	211,671	195,476
Additional paid-in capital	130,046	130,046	152,648
Other components of equity	(6,995)	(7,446)	(9,480)
Non-controlling interests	(9,539)	(9,766)	(11,409)
Adjustment to retained earnings	322,722	324,505	327,235

(ix) Put Options Granted to Non-Controlling Interests

Under U.S. GAAP, with respect to written put options on subsidiary shares granted to the holders of certain non-controlling interests, as redemption of the non-controlling interests was not solely in the control of NTT Group, the estimated redemption amount was considered as "Redeemable non-controlling interests" and was presented in between liabilities and equity in the consolidated balance sheets. Changes in the estimated redemption amount were recognized as changes in retained earnings.

Under IFRS, on the other hand, as a general rule, the present value of the redemption amount of these options is recognized at first as other financial liabilities, and an equivalent amount is deducted from additional paid-in capital. After this initial recognition, they are measured at amortized cost based on the effective interest rate method, and their ex-post facto change is recognized as additional paid-in capital.

The impact of this change is as follows.

	Millions of yen		
	As of Transition Date to IFRS April 1, 2017	As of June 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Redeemable non-controlling interests	50,819	53,808	49,930
Other financial liabilities (current)	(21,906)	(22,736)	(26,343)
Other financial liabilities (non-current)	(57,724)	(60,569)	(28,775)
Non-controlling interests	(32,222)	(34,868)	(27,044)
Retained earnings	−	−	(4,778)
Adjustment to additional paid-in capital	(61,033)	(64,365)	(37,010)

The main adjustments to equity and comprehensive income other than (i) to (ix) above are as follows.

Under U.S. GAAP, where the fiscal year-end date of a subsidiary or affiliated company differs from the one of the parent company, material intervening events or transactions are disclosed in the notes or are adjusted directly in the consolidated financial statements.

Under IFRS, where the fiscal year-end date of a subsidiary or affiliated company and jointly controlled entity differs from that of the parent company, the fiscal year-end date is unified or additional financial statements are prepared on the parent company's fiscal year-end date, except where doing so would be impractical. If unifying the fiscal year-end date or preparing additional financial statements is impractical, an adjustment is made for the material events or transactions occurring within the different periods.

As a result, at the transition date to IFRS, April 1, 2017, June 30, 2017 and March 31, 2018, retained earnings were adjusted ¥(687) million, ¥921 million and ¥(1,816) million, respectively. Other components of equity were adjusted ¥(9,118) million, ¥6,218 million and ¥(12,183) million, respectively, and non-controlling interests were adjusted ¥(2,464) million, ¥2,162 million and ¥(1,185) million, respectively.

(4) Note on Changes in Presentation of Consolidated Statement of Financial Position and Consolidated Statement of Profit or Loss

(i) Presentation of Deferred Tax Assets and Deferred Tax Liabilities

Under U.S. GAAP, deferred tax assets and deferred tax liabilities at the transition date to IFRS (April 1, 2017) are shown as current assets and current liabilities, or as non-current assets and non-current liabilities. Under IFRS, all deferred tax assets and deferred tax liabilities are shown as non-current assets and non-current liabilities. At the end of the three months ended June 30, 2017 and the end of the fiscal year ended March 31, 2018, there was no difference in standard between U.S. GAAP and IFRS.

(ii) Classification of Financial Assets and Financial Liabilities

Under IFRS, other financial assets and other financial liabilities are presented as separate classifications, based on the rules of presentation.

(iii) Offsetting of Financial Assets and Financial Liabilities

Under U.S. GAAP, financial assets are shown offset against financial liabilities, provided that certain requirements are met, even if the right of offset is conditional. Under IFRS, however, financial assets are not shown offset against financial liabilities, except in situations in which an unconditional right of offset with legal force exists at the close of the reporting period, and either settlement is made in a net amount or the intention exists to settle liabilities at the same time as asset recovery.

(iv) Presentation of Operating Expenses

Under U.S. GAAP, “operating expenses” are presented using the function of expense method, whereby expenses are classified as cost of sales, selling expenses, or other categories of expenses based on their function. Under IFRS expenses are presented using the nature of expense method, whereby expenses are classified as personnel expenses, operating expenses, depreciation and amortization, etc. based on their nature.

(5) Adjustment to Consolidated Statement of Cash Flows

(i) Three Months Ended June 30, 2017

In the consolidated statement of cash flows prepared based on IFRS, cash flows from operating activities decreased by ¥36,155 million, cash flows from investing activities increased by ¥20,322 million and cash flows from financing activities increased by ¥58,422 million compared with the consolidated statement of cash flows prepared based on U.S. GAAP. The key adjustments are the two points described below.

ⅰ. Under U.S. GAAP, cash flows relating to loans and the collection of loans are recorded under cash flows from investing activities. Under IFRS, however, cash flows related to loans and collection of loans that are related to principal operating activities are recorded under cash flows from operating activities. As a result, cash flows from operating activities decreased by ¥31,374 million, and cash flows from investing activities increased by the same amount.

ⅱ. Under IFRS, in connection with changes in the consolidated statement of financial position described under section (4)(iii) above, short-term liabilities and cash and cash equivalents for which offsetting presentation is not permitted are recorded. As a result, cash flows from financing activities increased by ¥36,982 million.

(ii) Fiscal Year Ended March 31, 2018

In the consolidated statement of cash flows prepared based on IFRS, cash flows from operating activities decreased by ¥96,277 million and cash flows from investing activities increased by ¥95,592 million and cash flows from financing activities decreased by ¥36,621 million compared with the consolidated statement of cash flows prepared based on U.S. GAAP. The key adjustments are the two points described below.

ⅰ. As a result of the adjustment described under (i)i above, under IFRS, cash flows from operating activities decreased by ¥47,554 million, and cash flows from investing activities increased by the same amount.

ⅱ. As a result of the adjustment described under (i)ii above, under IFRS, cash flows from financing activities decreased by ¥43,105 million.