[Translation]

Quarterly Securities Report

(The Second Quarter of the 34th Business Term)
From July 1, 2018 to September 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 six-month period ended September 30, 2018, which NTT filed on November 7, 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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[Filing Date]	November 7, 2018
[Fiscal Year]	The Second Quarter of the 34th Business Term (From July 1, 2018 to September 30, 2018)
[Company Name]	Nippon Denshin Denwa Kabushiki Kaisha
[Company Name in English]	NIPPON TELEGRAPH AND TELEPHONE CORPORATION
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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

		Six Months Ended September 30, 2017	Six Months Ended September 30, 2018	Fiscal year ended March 31, 2018
Operating revenues	Millions of yen	5,691,162	5,793,199	11,782,148
Profit before taxes	Millions of yen	1,041,929	1,078,318	1,740,479
Profit attributable to NTT	Millions of yen	564,079	559,726	897,887
Comprehensive income attributable to NTT	Millions of yen	602,815	611,248	950,302
NTT shareholders' equity	Millions of yen	9,058,774	9,430,664	9,062,752
Total assets	Millions of yen	21,454,884	21,719,758	21,541,444
Basic earnings per share attributable to NTT	Yen	281.07	286.50	449.86
Diluted earnings per share attributable to NTT	Yen	-	-	-
Equity ratio (Ratio of NTT Shareholders' Equity to Total Assets)	%	42.2	43.4	42.1
Net cash provided by operating activities	Millions of yen	1,037,291	1,207,903	2,541,270
Net cash used in investing activities	Millions of yen	(1,006,283)	(906,253)	(1,746,185)
Net cash used in financing activities	Millions of yen	(124,463)	(311,057)	(968,279)
Cash and cash equivalents at end of period	Millions of yen	984,388	889,643	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 six months ended September 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 six months ended September 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

Six-Month Period Ended September 30, 2018 (April 1, 2018 – September 30, 2018)

(Billions of yen)

	Six Months Ended September 30, 2017	Six Months Ended September 30, 2018	Change	Percent Change
Operating revenues	5,691.2	5,793.2	102.0	1.8%
Operating expenses	4,652.8	4,722.4	69.6	1.5%
Operating profit	1,038.4	1,070.8	32.4	3.1%
Profit before taxes	1,041.9	1,078.3	36.4	3.5%
Profit attributable to NTT	564.1	559.7	(4.4)	(0.8)%

During the six months ended September 30, 2018, pursuant to the outline of NTT Group's new Medium-Term Management Strategy, which was previously announced in June 2018, NTT Group, in its role as "Your Value Partner," promoted initiatives through its business operation and worked with its partners to resolve social issues.

<Support Our Customer's Digital Transformation>

NTT Group worked on promoting the B2B2X model to support new value-creating business, rolling out the 5th-Generation Wireless System, and providing personalized services to support individuals' lifestyle changes, among other things.

- NTT Group signed the Agreement for Comprehensive Collaboration for Realizing a Super-Smart Society by Utilizing Public and Private Data with Yokohama City (population: 3.7 million, city budget: 3.6 trillion yen) and Yokohama City University. The aim of this agreement is to utilize data in order to make citizens' lives more convenient in various areas, including health/welfare and child raising/education, and to efficiently and effectively manage municipal administration through policy initiatives that are based on data. In addition, NTT Group will continue to support citizens' increasingly complex and diverse needs while at the same time working to increase its initiatives for the future.

- In July 2018, NTT DOCOMO launched "docomo 5G Open Cloud," which combines NTT DOCOMO's technologies, such as image recognition and AI agent platforms, with a telecom cloud environment that directly connects 5G technology verification equipment and cloud infrastructure for companies and organizations that are participating in the “docomo 5G Open Partner Program.“ This will further strengthen cooperation with companies and organizations that participate in the “docomo 5G Open Partner Program“ and work on creating new solutions.

<Accelerate Our Own Digital Transformation>

NTT Group has advanced its “One NTT” global business growth strategy, aimed toward enhancing its global business competitiveness and its self-digital transformation in the domestic business, among other initiatives.

- NTT established a new global holding company under NTT. This entity is called NTT Inc. By the third quarter of the fiscal year ending March 31, 2019, NTT Communications, Dimension Data, NTT Security, and NTT DATA, will be transferred to NTT, Inc.

  NTT also created a new global innovation fund: NTT Venture Capital, L.P. With this new fund, NTT Group will activate investment in high-growth areas in the global market such as digital technology and will also intensify its R&D activities in global markets by using its network of experts, including global advanced academic research institutions and venture-capital communities around the world.

  Furthermore, NTT advanced efforts to establish, a procurement company in the United States: NTT Global Sourcing, Inc., which will engage in centralized price negotiations and the execution of comprehensive agreements with global vendors and other parties for hardware, software, and services purchased in common by each Group company. NTT, NTT East and NTT West are excluded from this procurement system.

- NTT, NTT East, NTT West, NTT Communications, and NTT DOCOMO have each appointed a Chief Digital Officer (CDO), in order to drive their own digital transformation with the aim to further enhance the efficiency of business processes and provide new added-value services. The CDOs of each company will formulate and promote digital strategies, enabling the group to be more flexible and agile in accordance with drastic changes in the business environment, including the introduction of 5G and PSTN migration (the shift from fixed telephones to IP networks). NTT DATA has already appointed an operating officer in charge of digital strategy.

<Leverage Talent, Technologies, and Assets>

NTT Group worked on studies into reinforcing and globalizing its R&D and creating new lines of business (real estate and electric power).

- Tokyo Electric Power Company Holdings, Inc. and NTT established TNcross Corporation, a jointly funded joint venture that will contribute to societal demands, including the promotion of energy conservation and decarbonization and the provision of a disaster-proof energy supply, and will also advance business development that is responsive to market and social changes.

<Promote ESG Management, and Enhance Returns to Shareholders to Improve Corporate Value>

By promoting ESG management, NTT has continuously set the returning of profits to shareholders, while ongoing improvements of corporate value as one of its important management challenges. With respect to shareholder returns, NTT has a basic policy of steady dividend increases. In addition, NTT will flexibly carry out buybacks based on performance trends and other factors in order to improve its capital efficiency.

- NTT was selected for inclusion in the Dow Jones Sustainability World Index (DJSI World), a leading global index of ESG investment, for the first time. NTT has also been selected for the Asia Pacific Index, the Asia Pacific version of DJSI, for the fifth consecutive year.

As a result of these efforts, NTT Group's consolidated operating revenues for the six-month period ended September 30, 2018 were ¥5,793.2 billion (an increase of 1.8% from the same period of the previous fiscal year), consolidated operating expenses were ¥4,722.4 billion (an increase of 1.5% from the same period of the previous fiscal year), consolidated operating profit was ¥1,070.8 billion (an increase of 3.1% from the same period of the previous fiscal year), profit before taxes was ¥1,078.3 billion (an increase of 3.5% from the same period of the previous fiscal year), and profit attributable to NTT was ¥559.7 billion (a decrease of 0.8% from the same period of the previous fiscal year).

(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. See Note6 to the consolidated financial statements.

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

Six-Month Period Ended September 30, 2018 (April 1, 2018 – September 30, 2018)

(Billions of yen)

	Six Months Ended September 30, 2017	Six Months Ended September 30, 2018	Change	Percent Change
Operating revenues	1,578.9	1,544.4	(34.5)	(2.2)%
Fixed voice related services	568.9	541.9	(27.0)	(4.8)%
IP/packet communications services	761.0	748.5	(12.5)	(1.6)%
System integration services	66.3	68.7	2.4	3.6%
Other services	182.7	185.4	2.7	1.5%

	Six Months Ended September 30, 2017	Six Months Ended September 30, 2018	Change	Percent Change
Operating expenses	1,290.5	1,268.1	(22.4)	(1.7)%
Operating profit	288.4	276.3	(12.1)	(4.2)%

Operating revenues in the regional communications business segment for the six-month period ended September 30, 2018 decreased 2.2% from the same period of the previous fiscal year to ¥1,544.4 billion due to, among other things, a decrease in fixed voice related services revenues. On the other hand, operating expenses for the six-month period ended September 30, 2018 decreased 1.7% from the same period of the previous fiscal year to ¥1,268.1 billion due to a decrease in personnel expenses, among other factors. As a result, segment operating profit for the six-month period ended September 30, 2018 decreased 4.2% from the same period of the previous fiscal year to ¥276.3 billion.

Number of Subscriptions

(Thousands of subscriber lines/subscriptions)

Service	As of March 31, 2018	As of September 30, 2018	Change	Percent Change
(NTT East)				
Telephone Subscriber Lines	8,707	8,403	(304)	(3.5)%
INS-Net	1,188	1,135	(52)	(4.4)%
FLET'S Hikari (including Hikari Collaboration Model)	11,491	11,707	216	1.9%
FLET'S ADSL	342	294	(48)	(14.0)%
Hikari Denwa (thousands of channels)	9,558	9,666	107	1.1%
FLET'S TV Transmission Services	992	1,009	17	1.8%
(NTT West)				
Telephone Subscriber Lines	8,832	8,524	(308)	(3.5)%
INS-Net	1,143	1,095	(48)	(4.2)%
FLET'S Hikari (including Hikari Collaboration Model)	9,041	9,144	103	1.1%
FLET'S ADSL	438	396	(42)	(9.5)%
Hikari Denwa (thousands of channels)	8,474	8,488	15	0.2%
FLET'S TV Transmission Services	624	650	27	4.3%

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

Six-Month Period Ended September 30, 2018 (April 1, 2018 – September 30, 2018)

(Billions of yen)

	Six Months Ended September 30, 2017	**Six Months Ended September 30, 2018**	**Change**	**Percent Change**
Operating revenues	1,096.1	1,113.1	17.0	1.6%
Fixed voice related services	119.5	112.5	(7.1)	(5.9)%
IP/packet communications services	201.6	211.8	10.2	5.1%
System integration services	683.3	702.0	18.7	2.7%
Other services	91.7	86.9	(4.8)	(5.3)%
Operating expenses	1,016.0	1,041.7	25.7	2.5%
Operating profit	80.1	71.5	(8.7)	(10.8)%

Operating revenues in the long distance and international communications business segment for the six-month period ended September 30, 2018 increased 1.6% from the same period of the previous fiscal year to ¥1,113.1 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 six-month period ended September 30, 2018 increased 2.5% from the same period of the previous fiscal year to ¥1,041.7 billion due to an increase in revenue-linked expenses, among other things. As a result, segment operating profit for the six-month period ended September 30, 2018 decreased 10.8% from the same period of the previous fiscal year to ¥71.5 billion.

Number of Subscriptions

(Thousands of subscriptions)

Service	**As of March 31, 2018**	**As of September 30, 2018**	**Change**	**Percent Change**
OCN (ISP)	7,521	7,414	(107)	(1.4)%
Plala (ISP)	3,145	3,169	23	0.7%
Hikari TV	3,016	3,015	(0)	(0.0)%

Mobile Communications Business Segment

Six-Month Period Ended September 30, 2018 (April 1, 2018 – September 30, 2018)

(Billions of yen)

	Six Months Ended September 30, 2017	Six Months Ended September 30, 2018	Change	Percent Change
Operating revenues	2,294.3	2,389.5	95.2	4.2%
Mobile voice related services	469.1	477.9	8.8	1.9%
IP/packet communications services	1,074.3	1,086.4	12.1	1.1%
Other services	751.0	825.3	74.3	9.9%
Operating expenses	1,734.7	1,779.0	44.3	2.6%
Operating profit	559.6	610.5	50.9	9.1%

Operating revenues for the mobile communications business segment for the six-month period ended September 30, 2018 increased 4.2% from the same period of the previous fiscal year to ¥2,389.5 billion due to an increase in IP/packet communications services revenues resulting from the expansion of "Kake-hodai & Pake-aeru" and "docomo Hikari." On the other hand, operating expenses for the six-month period ended September 30, 2018 increased 2.6% from the same period of the previous fiscal year to ¥1,779.0 billion due to an increase in revenue-linked expenses in "docomo Hikari," among other factors. As a result, segment operating profit for the six -month period ended September 30, 2018 increased 9.1% from the same period of the previous fiscal year to ¥610.5 billion.

Number of Subscriptions

(Thousands of subscriptions)

Service	As of March 31, 2018	As of September 30, 2018	Change	Percent Change
Mobile Telecommunications Services	76,370	77,050	680	0.9%
(incl.) "Kake-hodai & Pake-aeru" billing plan	41,964	43,877	1,912	4.6%
Telecommunications Services (LTE (Xi))	50,097	52,502	2,405	4.8%
Telecommunications Services (FOMA (3G))	26,273	24,549	(1,725)	(6.6)%
sp-mode	38,998	40,239	1,241	3.2%
i-mode	12,111	10,641	(1,470)	(12.1)%

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

Data Communications Business Segment

Six-Month Period Ended September 30, 2018 (April 1, 2018 – September 30, 2018)

(Billions of yen)

	Six Months Ended September 30, 2017	Six Months Ended September 30, 2018	Change	Percent Change
Operating revenues	964.0	1,022.7	58.8	6.1%
Operating expenses	907.6	962.4	54.8	6.0%
Operating profit	56.3	60.3	4.0	7.1%

Operating revenues in the data communications business segment for the six-month period ended September 30, 2018 increased 6.1% from the same period of the previous fiscal year to ¥1,022.7 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 six-month period ended September 30, 2018 increased 6.0% from the same period of the previous fiscal year to ¥962.4 billion due to, among other things, the impact of an increase in revenue-linked expenses. As a result, segment operating profit for the six-month period ended September 30, 2018 increased 7.1% from the same period of the previous fiscal year to ¥60.3 billion.

Other Business Segment

Six-Month Period Ended September 30, 2018 (April 1, 2018 – September 30, 2018)

(Billions of yen)

	Six Months Ended September 30, 2017	Six Months Ended September 30, 2018	Change	Percent Change
Operating revenues	556.0	565.0	9.0	1.6%
Operating expenses	497.3	507.6	10.4	2.1%
Operating profit	58.7	57.3	(1.4)	(2.4)%

Operating revenues in the other business segment for the six-month period ended September 30, 2018 increased 1.6% from the same period of the previous fiscal year to ¥565.0 billion due to an increase in revenues of , among other things, NTT Group's real estate and finance businesses. On the other hand, operating expenses for the six-month period ended September 30, 2018 increased 2.1% from the same period of the previous fiscal year to ¥507.6 billion due to, among other things, an increase in revenue-linked expenses in NTT Group's real estate and finance businesses. As a result, segment operating profit for the six-month period ended September 30, 2018 decreased 2.4% from the same period of the previous fiscal year to ¥57.3 billion.

(3) Cash Flows

Cash flows provided by operating activities, excluding the impact of non-business days, for the six months ended September 30, 2018 decreased by ¥65.0 billion (5.1%) from the same period of the previous fiscal year to ¥1,209.8 billion. This decrease was due to, among other factors, a decrease in collection of trade receivables. Cash flows provided by operating activities for the six months ended September 30, 2018 was ¥1,207.9 billion.

Cash flows used in investing activities decreased by ¥100.0 billion (9.9%) from the same period of the previous fiscal year to ¥906.3 billion. This decrease was due to, among other factors, a decrease in capital investments.

Cash flows used in financing activities increased by ¥186.6 billion (149.9%) from the same period of the previous fiscal year to ¥311.1 billion. This increase was due to, among other factors, a decrease in debt.

As a result of the above, NTT Group's consolidated cash and cash equivalents, excluding the impact of non-business days, as of September 30, 2018 was ¥1,123.5 billion, a decrease of ¥3.4 billion (0.3%) from the end of the previous fiscal year. Cash and cash equivalents as of September 30, 2018 was ¥889.6 billion.

(Billions of yen)

	Six Months Ended September 30, 2017	Six Months Ended September 30, 2018	Change	Percent Change
Cash flows provided by operating activities	1,037.3	1,207.9	170.6	16.4%
Cash flows provided by operating activities (excluding the impact of non-business days(1)(2))	1,274.8	1,209.8	(65.0)	(5.1)%
Cash flows used in investing activities	(1,006.3)	(906.3)	100.0	9.9%
Cash flows used in financing activities	(124.5)	(311.1)	(186.6)	(149.9)%
Cash and cash equivalents	984.4	889.6	(94.7)	(9.6)%
Cash and cash equivalents (excluding the impact of non-business days(1)(3))	1,221.9	1,123.5	(98.4)	(8.1)%

Note: (1) Effect in the amount of ¥237.5 billion, caused by the last day of the six months ended September 30, 2017 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.

(2) Effect in the amount of ¥1.9 billion, caused by each of the last day of the year ended March 31, 2018 and the six months ended September 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.

(3) Effect in the amount of ¥233.8 billion, caused by the last day of the six months ended September 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 six months ended September 30, 2018, and no new additional issues arose during the period.

(5) Research and Development

NTT's research and development expenses for the six months ended September 30, 2018 were ¥96.0 billion. There were no material changes in NTT's research and development activities during the six months ended September 30, 2018.

3. Material Contracts

There were no material contracts relating to NTT's operations that were agreed upon or entered into during the six months ended September 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 September 30, 2018 (shares)	Number of Shares Issued as of the Filing Date (shares) (November 7 , 2018)	Stock Exchange on which the Company is Listed	Description
Common Stock	1,950,394,470	1,950,394,470	Tokyo Stock Exchange (First Section)	Number of shares per one unit of shares is 100 shares
Total	1,950,394,470	1,950,394,470	―	―

Notes: (1) 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) Pursuant to the Board of Directors' resolution on September 18, 2018, NTT canceled 146,000,000 shares of its treasury stock on September 26, 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)
July 1, 2018 - September 30, 2018	(146,000,000)	1,950,394,470	—	937,950	—	2,672,826

Note: Pursuant to the Board of Directors' resolution on September 18, 2018, NTT canceled 146,000,000 shares of its treasury stock on September 26, 2018.

(5) Major Shareholders

As of September 30, 2018

Name	Address	Number of Shares Held (thousands of shares)	Ownership Percentage of the Total Number of Issued Shares
The Minister of Finance	1-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo	679,121	34.82
Japan Trustee Services Bank, Ltd. (Trust Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	86,313	4.43
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	76,768	3.94
JPMorgan Chase Bank 380055 (Standing proxy: Mizuho Bank, Ltd.)	270 PARK AVENUE, NEW YORK, NY 10017, UNITED STATES OF AMERICA (15-1, Konan 2-chome, Minato-ku, Tokyo)	34,381	1.76
Japan Trustee Services Bank, Ltd. (Trust Account 9)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	28,292	1.45
Japan Trustee Services Bank, Ltd. (Trust Account 5)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	26,589	1.36
State Street Bank and Trust Company 505202 (Standing proxy: The Hongkong and Shanghai Banking Corporation, Ltd.)	NYMPHENBURGER STR, 70 8000 MUNICH 2 GERMANY	20,079	1.03
Japan Trustee Services Bank, Ltd. (Trust Account 1)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	19,951	1.02
Japan Trustee Services Bank, Ltd. (Trust Account 2)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	19,726	1.01
JPMorgan Chase Bank 385632 (Standing proxy: Mizuho Bank, Ltd.)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (15-1, Konan 2-chome, Minato-ku, Tokyo)	18,823	0.97
Total	―	1,010,047	51.79

Note: Ownership Percentage of the Total Number of Issued Shares does not include treasury stock.

(6) Information on Voting Rights

Issued Shares

As of September 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) 113,200 shares of common stock (Others) 36,800 shares of common stock	—	—
Shares with Full Voting Rights (Others)	1,947,707,100 shares of common stock	19,477,065	—
Shares Representing Less than One Unit	2,537,370 shares of common stock	—	—
Number of Issued Shares	1,950,394,470 shares of common stock	—	—
Total Number of Voting Rights	—	19,477,065	—

Note: 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 September 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	113,200	—	113,200	0.0%
(Others) Nihon Meccs Corporation	6-3, Irifune 3-chome, Chuo-ku, Tokyo	36,800	—	36,800	0.0%
Total	—	150,000	—	150,000	0.0%

Notes: (1) 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".

(2) 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. For details, please see "Note 11. Equity and Other Equity Items" under "Condensed Quarterly Consolidated Financial Statement" of "4. Financial Information".

(3) Pursuant to the Board of Directors' resolution on September 18, 2018, NTT canceled 146,000,000 shares of its treasury stock on September 26, 2018. For details, please see "Note 11. Equity and Other Equity Items" under "Condensed Quarterly Consolidated Financial Statement" 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 second quarter of the consolidated accounting period (from July 1, 2018 to September 30, 2018 and from April 1, 2018 to September 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.

【Condensed Consolidated Financial Statements】

(1)【Condensed Consolidated Statement of Financial Position】

	Notes	Date of Transition to IFRS (April 1, 2017)	March 31, 2018	September 30, 2018
		Millions of yen		
ASSETS				
Current assets				
Cash and cash equivalents	7	¥1,075,773	¥895,003	¥889,643
Trade and other receivables	7	3,623,577	4,022,227	3,965,889
Other financial assets	13	167,410	123,344	117,052
Inventories		326,718	354,181	344,238
Other current assets		383,506	474,405	531,523
Sub Total		5,576,984	5,869,160	5,848,345
Assets held for sale	8	-	-	234,160
Total current assets		5,576,984	5,869,160	6,082,505
Non-current assets				
Property, plant and equipment	9	8,719,755	8,812,174	8,941,844
Goodwill		881,292	841,283	944,784
Intangible assets		1,609,598	1,589,448	1,618,096
Investment property		992,317	1,002,301	936,432
Investments accounted for using equity method	8	528,981	539,342	311,622
Other financial assets	13	1,010,546	1,068,799	1,161,720
Deferred tax assets	8	1,243,283	1,173,946	1,068,732
Other non-current assets		660,971	644,991	654,023
Total non-current assets		15,646,743	15,672,284	15,637,253
Total assets		¥21,223,727	¥21,541,444	¥21,719,758

	Notes	Date of Transition to IFRS (April 1, 2017)	March 31, 2018	September 30, 2018
		Millions of yen		
LIABILITIES AND EQUITY				
Current liabilities				
Short-term debt	10,13	¥1,079,243	¥1,017,744	¥1,127,766
Trade and other payables		1,797,544	1,811,723	1,484,833
Other financial liabilities	13	45,727	50,711	63,934
Accrued payroll		450,360	455,007	433,386
Accrued taxes on income		233,817	240,670	234,787
Other current liabilities		958,862	1,046,582	984,372
Total current liabilities		4,565,553	4,622,437	4,329,078
Non-current liabilities				
Long-term debt	10,13	3,179,645	2,953,855	2,936,287
Other financial liabilities	13	201,789	190,356	159,608
Defined benefit liabilities		1,876,845	1,860,524	1,879,064
Deferred tax liabilities		99,038	74,095	72,281
Other non-current liabilities		258,428	274,523	279,381
Total non-current liabilities		5,615,745	5,353,353	5,326,621
Total liabilities		10,181,298	9,975,790	9,655,699
Equity				
Nippon Telegraph and Telephone Corporation (“NTT”) shareholders’ equity				
Common stock	11	937,950	937,950	937,950
Additional paid-in capital	11	2,410,572	2,396,555	2,393,617
Retained earnings	11	5,480,639	6,138,351	5,851,395
Treasury stock	11	(375,223)	(610,742)	(557)
Other components of equity	8,11	179,453	200,638	248,259
Total NTT shareholders’ equity		8,633,391	9,062,752	9,430,664
Non-controlling interests		2,409,038	2,502,902	2,633,395
Total equity		11,042,429	11,565,654	12,064,059
Total liabilities and equity		¥21,223,727	¥21,541,444	¥21,719,758

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

【Condensed Consolidated Statement of Profit or Loss】

【Six Months Ended September 30】

		Millions of yen except per share data	
	Notes	2017	2018
Operating revenues	6,12	¥5,691,162	¥5,793,199
Operating expenses			
Personnel expenses		1,186,536	1,182,822
Expenses for purchase of goods and services and other expenses		2,684,525	2,768,090
Depreciation and amortization		664,218	656,479
Expenses on disposal of fixed assets		62,770	59,136
Impairment losses		742	28
Taxes and dues		54,021	55,892
Total operating expenses		4,652,812	4,722,447
Operating profit	6	1,038,350	1,070,752
Finance income		37,883	12,988
Finance costs		40,274	15,476
Share of profit (loss) of entities accounted for using equity method		5,970	10,054
Profit before taxes		1,041,929	1,078,318
Income taxes	8	324,171	357,124
Profit		717,758	721,194
Profit attributable to			
NTT		564,079	559,726
Non-controlling interests		153,679	161,468
Profit		717,758	721,194
Earnings per share attributable to NTT			
Basic earnings per share (yen)		¥281.07	¥286.50

【Condensed Consolidated Statement of Comprehensive Income】

【Six Months Ended September 30】

	Notes	Millions of yen 2017	2018
Profit		¥717,758	¥721,194
Other comprehensive income (net of taxes)	11		
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		–	38,898
Share of other comprehensive income of entities accounted for using equity method	8	(479)	(2,646)
Remeasurements of defined benefit plans		(282)	47
Total of items that will not be reclassified to profit or loss		(761)	36,299
Items that may be reclassified to profit or loss			
Unrealized gains (loss) on securities		6,803	–
Cash flow hedges		1,478	(893)
Foreign currency translation adjustments		46,916	55,035
Share of other comprehensive income of entities accounted for using equity method		1,827	(11,184)
Total of items that may be reclassified to profit or loss		57,024	42,958
Total other comprehensive income (net of taxes)		56,263	79,257
Total comprehensive income		774,021	800,451
Comprehensive income attributable to			
NTT	11	602,815	611,248
Non-controlling interests	11	171,206	189,203
Total comprehensive income		¥774,021	¥800,451

【Condensed Consolidated Statement of Profit or Loss】

【Three Months Ended September 30】

	Notes	2017	2018
		Millions of yen except per share data	
Operating revenues	6,12	¥2,882,441	¥2,940,467
Operating expenses			
Personnel expenses		594,922	590,703
Expenses for purchase of goods and services and other expenses		1,378,604	1,426,292
Depreciation and amortization		333,267	330,989
Expenses on disposal of fixed assets		35,471	32,363
Impairment losses		742	28
Taxes and dues		25,743	26,566
Total operating expenses		2,368,749	2,406,941
Operating profit	6	513,692	533,526
Finance income		10,734	5,274
Finance costs		13,272	7,051
Share of profit (loss) of entities accounted for using equity method		2,965	3,918
Profit before taxes		514,119	535,667
Income taxes	8	161,929	189,828
Profit		352,190	345,839
Profit attributable to			
NTT		274,790	269,980
Non-controlling interests		77,400	75,859
Profit		352,190	345,839
Earnings per share attributable to NTT			
Basic earnings per share (yen)		¥136.95	¥138.43

【Condensed Consolidated Statement of Comprehensive Income】

【Three Months Ended September 30】

	Notes	Millions of yen 2017	2018
Profit		¥352,190	¥345,839
Other comprehensive income (net of taxes)	11		
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		–	28,263
Share of other comprehensive income of entities accounted for using equity method	8	(424)	(11,291)
Remeasurements of defined benefit plans		(61)	(8)
Total of items that will not be reclassified to profit or loss		(485)	16,964
Items that may be reclassified to profit or loss			
Unrealized gains (loss) on securities		4,139	–
Cash flow hedges		(638)	(1,463)
Foreign currency translation adjustments		20,567	39,108
Share of other comprehensive income of entities accounted for using equity method		5,781	2,139
Total of items that may be reclassified to profit or loss		29,849	39,784
Total other comprehensive income (net of taxes)		29,364	56,748
Total comprehensive income		381,554	402,587
Comprehensive income attributable to			
NTT	11	293,435	311,063
Non-controlling interests	11	88,119	91,524
Total comprehensive income		¥381,554	¥402,587

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

【Six Months Ended September 30, 2017】

		Millions of yen							
		NTT Shareholders' Equity						Non-controlling interests	Total equity
	Notes	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Other components of equity	Total		
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		–	–	564,079	–	–	564,079	153,679	717,758
Other comprehensive income		–	–	–	–	38,736	38,736	17,527	56,263
Total comprehensive income		–	–	564,079	–	38,736	602,815	171,206	774,021
Value of transactions with shareholders etc.									
Dividends of surplus	11	–	–	(120,922)	–	–	(120,922)	(57,639)	(178,561)
Transfer to retained earnings	11	–	–	(508)	–	508	–	–	–
Purchase and disposal of treasury stock	11	–	–	–	(43,376)	–	(43,376)	–	(43,376)
Changes in ownership interest in subsidiaries		–	(10,301)	–	–	–	(10,301)	(617)	(10,918)
Share-based compensation transactions		–	2,028	–	–	–	2,028	–	2,028
Put options granted to non-controlling interests	11	–	(4,861)	–	–	–	(4,861)	–	(4,861)
Total value of transactions with shareholders etc.		–	(13,134)	(121,430)	(43,376)	508	(177,432)	(58,256)	(235,688)
September 30, 2017		¥937,950	¥2,397,438	¥5,923,288	¥(418,599)	¥218,697	¥9,058,774	¥2,521,988	¥11,580,762

【Six Months Ended September 30, 2018】

	Notes	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Other components of equity	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		–	–	559,726	–	–	559,726	161,468	721,194
Other comprehensive income		–	–	–	–	51,522	51,522	27,735	79,257
Total comprehensive income		–	–	559,726	–	51,522	611,248	189,203	800,451
Value of transactions with shareholders etc.									
Dividends of surplus	11	–	–	(147,831)	–	–	(147,831)	(68,056)	(215,887)
Transfer to retained earnings	11	–	–	5,374	–	(5,374)	–	–	–
Transfer to non-financial assets	11	–	–	–	–	3,905	3,905	–	3,905
Purchase and disposal of treasury stock	11	–	1	–	(108,075)	–	(108,074)	–	(108,074)
Cancellation of treasury stock	11	–	(2)	(718,258)	718,260	–	–	–	–
Changes in ownership interest in subsidiaries		–	(1,430)	–	–	–	(1,430)	1,781	351
Share-based compensation transactions		–	2,008	–	–	–	2,008	–	2,008
Put options granted to non-controlling interests	11	–	(3,515)	–	–	–	(3,515)	–	(3,515)
Total value of transactions with shareholders etc.		–	(2,938)	(860,715)	610,185	(1,469)	(254,937)	(66,275)	(321,212)
September 30, 2018		¥937,950	¥2,393,617	¥5,851,395	¥(557)	¥248,259	¥9,430,664	¥2,633,395	¥12,064,059

(4)【Condensed Consolidated Statement of Cash Flows】

【Six Months Ended September 30】

		Millions of yen	
	Notes	2017	2018
Cash flows from operating activities			
Profit		¥717,758	¥721,194
Depreciation and amortization		664,218	656,479
Impairment losses		742	28
Share of loss (profit) of entities accounted for using equity method		(5,970)	(10,054)
Losses on retirement of fixed assets		28,910	24,522
Gain on sales of fixed assets		(1,356)	(5,733)
Income taxes		324,171	357,124
Decrease (increase) in trade and other receivables	7	(54,714)	85,987
Decrease (increase) in inventories		(16,807)	2,933
Decrease (increase) in other current assets		(87,227)	(67,014)
Increase (decrease) in trade and other payables / accrued payroll		(251,068)	(246,845)
Increase (decrease) in other current liabilities		(31,301)	(70,430)
Increase (decrease) in defined benefit liabilities		16,470	17,992
Increase (decrease) in other non-current liabilities		10,776	3,464
Other		21,438	25,744
Sub-total		1,336,040	1,495,391
Interest and dividends received		40,140	37,411
Interest paid		(22,446)	(20,032)
Income taxes paid		(316,443)	(304,867)
Net cash provided by (used in) operating activities		1,037,291	1,207,903
Cash flows from investing activities			
Purchase of property, plant and equipment, intangible assets and investment property		(907,858)	(838,735)
Purchase of investments		(205,936)	(28,088)
Proceeds from sale or redemption of investments		124,319	39,680
Expenses due to acquisition of control of subsidiaries		(6,927)	(88,274)
Other		(9,881)	9,164
Net cash provided by (used in) investing activities		(1,006,283)	(906,253)
Cash flows from financing activities			
Net increase (decrease) in short-term debt		19,575	136,840
Proceeds from increases in long-term debt	10	291,158	179,156
Repayment of long-term debt	10	(202,363)	(281,876)
Payments for acquisition of interests in subsidiaries from non-controlling interests		(8,878)	(6,314)
Dividends paid		(120,922)	(147,831)
Dividends paid to non-controlling interests		(57,652)	(68,002)
Payments for purchase of treasury stock		(43,407)	(108,105)
Other		(1,974)	(14,925)
Net cash provided by (used in) financing activities		(124,463)	(311,057)
Effect of exchange rate change on cash and cash equivalents		2,070	4,047
Net increase (decrease) in cash and cash equivalents		(91,385)	(5,360)
Cash and cash equivalents as of April 1	7	1,075,773	895,003
Cash and cash equivalents as of September 30	7	¥984,388	¥889,643

【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 and material subsidiaries are follows:

Regional Communications Business (the provision of communications services within local prefectures and other incidental business under the group’s domestic telecommunications business)
• NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION (“NTT East”)
• NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION (“NTT West”)

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)
• NTT Communications Corporation (“NTT Communications”)
• Dimension Data Holdings plc

Mobile Communications Business (mobile phone business and related services)
• NTT DOCOMO Corporation (“NTT DOCOMO”)

Data Communications Business (systems integration and network systems services etc.)
• 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 November 6, 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 15: 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 September 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:

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 current fiscal year as a result of the application of IFRS 9

(Millions of yen)

Accounting Item	Increase (Decrease)
Investments accounted for using equity method	4,993
Other financial assets（Non-current）	20,883
Deferred tax assets	(5,912)
Deferred tax liabilities	963
Retained earnings	14,033
Other components of equity	(2,432)
Non-controlling interests	7,565

The impact on "profit" and "basic earnings per share" for the six months ended September 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

Control is achieved if both of the following conditions are met:

- NTT Group has power over the investee, or has exposure or rights, to variable returns from its involvement with the investee.
- NTT Group has the ability to affect those returns through its power over the investee.

Beginning and ending consolidation

Subsidiaries are consolidated for the period from the date control is gained until the date control is lost.

Accounting policies adopted by a subsidiary

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.

Subsidiaries of which fiscal year-end date is different from that of NTT Group

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

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.

Transactions eliminated on consolidated financial statements

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 a parent's ownership interest

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 has 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 joint ventures 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 between associates and joint ventures 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 joint ventures 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 joint ventures.

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 measured in profit/loss at the time they are incurred.

Any identifiable assets acquired and liabilities assumed on the date control is gained are measured 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 in the acquiree either at fair value or, alternatively, as a proportion of the identifiable net assets in the acquired company 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 (Foreign Subsidiaries)

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.

Accounting policies based on IFRS 7 and IFRS 9 applied to the fiscal year ending March 31, 2019

(i) Financial Assets

Recognition, classification, and measurement applied to 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 profit/loss are measured at the fair value at the time of initial recognition and any transaction costs directly attributable to the acquisition are recognized as profit/loss at the time they are incurred. After initial recognition, those financial assets are measured at fair value and any subsequent changes are recognized as profit/loss.

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 as shown below.

- If, at the end of the fiscal year, the credit risk on a financial asset has not increased significantly since initial recognition, then the loss allowance is measured using the expected credit loss due to a default occurring within 12 months of the reporting date (12-month expected credit losses).

- If, at the end of the fiscal year, the credit risk on a financial asset has increased significantly since initial recognition, then the loss allowance is measured using the expected credit loss due to all possible default over the expected life of the financial instrument (lifetime expected credit losses).

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.

(ii) 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 extinguished; that is, when the obligation specified in the contract is discharged or cancelled or expires.

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.

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.

(iii) Accounting for Derivatives and Hedges

Risk management objective and strategy

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 inception of the hedging relationship, NTT Group provides designation and documentation of risk management objectives with regard to hedging relationships and undertaking 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 changes in the fair value of the items/transactions being hedged or changes in cash flows.

Evaluation of hedging effectiveness

At the time of making the hedge designation, NTT Group expects any such hedges to be highly effective in offsetting changes 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.

Recognition and measurement

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

Fair Value Hedges

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

Cash Flow Hedges

Within the changes in the fair value of derivatives as hedging instruments, the portion determined to be effective is recognized as other comprehensive income, cumulatively recognized in “other components of equity”. 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 hedged item is forecast transaction subsequently results in a non-financial asset or liability, the amount cumulatively recognized in “other components of equity” is reclassified as an adjustment to the initial carrying amount of the non-financial asset or liability. Meanwhile, the portion of the changes in the fair value of derivatives as hedging instruments where the hedge is ineffective is recognized as profit/loss.

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

Derivatives Not Designated as Hedging Instruments

Changes 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

(i) Equity securities and debt securities

NTT Group's equity securities and debt securities are classified and accounted for as follows:

Equity securities and debt securities classified as marketable securities which are available for sale

Unrealized gains and losses, which are the differences between fair values and costs, are reported as a component of accumulated other comprehensive income (loss), net of taxes. 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, the full amount by which the cost of the security exceeds its fair value is recorded as an impairment loss.

Equity securities classified as non-marketable securities and equity securities for which sales are restricted by contractual requirements

These securities are carried at cost.

Debt securities designated as held-to-maturity

These securities are carried at amortized cost, and any amount by which the book value exceeds the net realizable value is recorded as an impairment loss, unless such declines are deemed to be temporary. Realized gains and losses, which are determined on the average cost method, are reflected in income.

(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 written off 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)

Risk management objective and strategy

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

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

Assessment of hedge effectiveness

NTT Group assesses (both at the hedge's inception and on an ongoing basis at least quarterly) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not highly effective as a hedge, NTT Group discontinues hedge accounting. The amounts representing hedges' ineffectiveness and the component of derivative instruments' gain or loss excluded from the assessment of hedge effectiveness are reported as "Finance income" or "Finance cost" in the consolidated statements of income.

Presentation and measurement

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.

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

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.

Fair value hedges

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.

Cash flow hedges

Derivatives classified as cash flow hedges are designated as hedges against the risk of changes 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.

Derivatives not designated as hedging instruments

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

(5) Cash and Cash Equivalents

Cash and cash equivalents consist of following items.

・cash at hand,

・deposits that can be withdrawn as required

・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, materials to be sold, work in progress, and production supplies, which are measured at the lower of cost or net realizable value (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). 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.

(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:

Telecommunications Equipment

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

Telecommunications Service Lines

Cables ..... 13 to 36 years

Tubes and tunnels ..... 50 years

Buildings and Structures

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) Goodwill

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 - (12)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.

(9) 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, but tested for impairment on an annual basis and when indicators of impairment are present. For details regarding the impairment of such assets, see “Note 3. Significant Accounting Policies - (12)Impairment.”

(10) Lease

Identification and classification

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.

Recognition and measurement

(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 uncollected lease fees due to the lessor in the finance lease and the unguaranteed residual value (that portion where there is no lessee's guarantee, or where only the parties related to the lessor 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.

(11) 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.

(12) 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.

(13) 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 in exchange for services provided by an employee, 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.

(14) 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. A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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.

(15) 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.

(16) 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

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 taxes

Recognition of deferred tax assets

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.

Recognition of deferred tax liabilities

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

Measurement of deferred tax assets and liabilities

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.

Presentation of deferred tax assets and liabilities

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

(17) 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.

(18) 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.

(19) 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."

(20) 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".

(21) 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 consolidated 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 13. Financial Instruments)

- Judgments on eligibility of forecast transactions as hedged item 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 13. -Financial Instruments)

- Estimates on the useful life of property, plant and equipment, intangible assets and investment property (Note 3. Significant Accounting Policies (7), (9) ,(10)&(11))

- Estimates on impairment losses for property, plant and equipment, intangible assets, investment property and goodwill (Note 3. Significant Accounting Policies (12))

- Measurement of obligations under defined benefit plans (Note 3. Significant Accounting Policies (13))

- Judgments and estimates involving the recognition and measurement of provisions (Note 3. Significant Accounting Policies (14))

- Revenue recognition (Note 3. Significant Accounting Policies (15))

- Estimate of realizability of deferred tax assets (Note 3. Significant Accounting Policies (16))

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 ending March 31, 2020	IFRS 16 replaces part of the contents of the existing IAS 17 (Leases) 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 lessee's 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 assess business performance, includes services as below.

Regional Communications Business segment
Fixed voice related services, IP/packet communications services, system integration services, and other services

Long Distance and International Communications Business segment
Fixed voice related services, IP/packet communications services, system integration services, and other services

Mobile Communications Business segment
Mobile voice related services, IP/packet communications services, sales of telecommunications equipment and other services

Data Communications Business segment
System integration services

Other Business segment
Principally building maintenance, real estate rentals, systems development, leasing activities, and other services related to research and development

Operating Revenues

Six Months Ended September 30,

(Millions of yen)

	Six Months Ended September 30, 2017 (April 1, 2017 - September 30, 2017)	Six Months Ended September 30, 2018 (April 1, 2018 - September 30, 2018)
Regional Communications Business		
Transactions with external customers	1,275,236	1,209,605
Inter-segment transactions	303,652	334,810
Sub-total	1,578,888	1,544,415
Long Distance and International Communications Business		
Transactions with external customers	1,047,645	1,061,691
Inter-segment transactions	48,480	51,441
Sub-total	1,096,125	1,113,132
Mobile Communications Business		
Transactions with external customers	2,263,741	2,357,196
Inter-segment transactions	30,534	32,325
Sub-total	2,294,275	2,389,521
Data Communications Business		
Transactions with external customers	914,783	966,021
Inter-segment transactions	49,168	56,701
Sub-total	963,951	1,022,722
Other Business		
Transactions with external customers	189,757	198,686
Inter-segment transactions	366,253	366,283
Sub-total	556,010	564,969
Elimination of inter-segment transactions	(798,087)	(841,560)
Total	5,691,162	5,793,199

Three Months Ended September 30,

(Millions of yen)

	Three Months Ended September 30, 2017 (July 1, 2017 - September 30, 2017)	Three Months Ended September 30, 2018 (July 1, 2018 - September 30, 2018)
Regional Communications Business		
Transactions with external customers	638,353	602,563
Inter-segment transactions	153,796	172,928
Sub-total	792,149	775,491
Long Distance and International Communications Business		
Transactions with external customers	539,169	545,135
Inter-segment transactions	23,577	26,832
Sub-total	562,746	571,967
Mobile Communications Business		
Transactions with external customers	1,145,779	1,196,956
Inter-segment transactions	14,899	15,896
Sub-total	1,160,678	1,212,852
Data Communications Business		
Transactions with external customers	466,952	487,562
Inter-segment transactions	24,948	29,920
Sub-total	491,900	517,482
Other Business		
Transactions with external customers	92,188	108,251
Inter-segment transactions	189,066	189,517
Sub-total	281,254	297,768
Elimination of inter-segment transactions	(406,286)	(435,093)
Total	2,882,441	2,940,467

Segment Profit or loss

Six Months Ended September 30,

(Millions of yen)

	Six Months Ended September 30, 2017 (April 1, 2017 - September 30, 2017)	Six Months Ended September 30, 2018 (April 1, 2018 - September 30, 2018)
Segment income		
Regional Communications Business	288,377	276,304
Long Distance and International Communications Business	80,130	71,452
Mobile Communications Business	559,605	610,520
Data Communications Business	56,338	60,332
Other Business	58,740	57,347
Total	1,043,190	1,075,955
Elimination of inter-segment transactions	(4,840)	(5,203)
Operating profit	1,038,350	1,070,752
Financial revenue	37,883	12,988
Financial expenses	(40,274)	(15,476)
Share of profit (loss) of entities accounted for using equity method	5,970	10,054
Profit before taxes	1,041,929	1,078,318

Three Months Ended September 30,

(Millions of yen)

	Three Months Ended September 30, 2017 (July 1, 2017 - September 30, 2017)	Three Months Ended September 30, 2018 (July 1, 2018 - September 30, 2018)
Segment income		
Regional Communications Business	137,068	134,280
Long Distance and International Communications Business	39,067	39,417
Mobile Communications Business	277,505	300,598
Data Communications Business	29,973	31,076
Other Business	30,288	31,357
Total	513,901	536,728
Elimination of inter-segment transactions	(209)	(3,202)
Operating profit	513,692	533,526
Financial revenue	10,734	5,274
Financial expenses	(13,272)	(7,051)
Share of profit (loss) of entities accounted for using equity method	2,965	3,918
Profit before taxes	514,119	535,667

There were no operating revenues from transactions with a single external customer amounting to 10% or more of NTT Group's revenues for the six and three months ended September 30, 2017 and 2018.

7. Impact on the consolidated financial statements due to the last day of the accounting period fallen on a non-business day

The last day of the fiscal year ended March 31, 2018, the six months ended September 30, 2017 and 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 following month. Consequently, the impact on the condensed quarterly consolidated financial statements is as follows.

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
(Condensed Consolidated Statement of Financial Position)		
Cash and cash equivalents	(231,929)	(233,849)
Trade and other receivables	231,929	233,849

(Millions of yen)

	Six Months Ended September 30, 2017 (April 1, 2017 - September 30, 2017)	Six Months Ended September 30, 2018 (April 1, 2018 - September 30, 2018)
(Condensed Consolidated Statement of Cash Flows)		
Decrease (increase) in trade and other receivables	(237,498)	(1,920)
Cash and cash equivalents as of April 1	−	(231,929)
Cash and cash equivalents as of September 30	(237,498)	(233,849)

8. Asset held for sale

Sumitomo Mitsui Card Company, Limited.

Overview

As of April 1, 2017, March 31, 2018 and September 30, 2018, NTT Group held 34% of the outstanding common shares of Sumitomo Mitsui Card Company, Limited. ("Sumitomo Mitsui Card") . Sumitomo Mitsui Card is a credit card operator in Japan and a privately held company.

NTT DOCOMO, a subsidiary of NTT entered into an agreement with Sumitomo Mitsui Card, Sumitomo Mitsui Financial Group, Inc. (SMFG) and Sumitomo Mitsui Banking Corporation to jointly promote credit transaction services which use mobile phones compatible with the "Osaifu-Keitai" (mobile wallet) service. The investment NTT DOCOMO made in Sumitomo Mitsui Card in accordance with this agreement had been accounted for using the equity method.

In September 2018, NTT DOCOMO concluded an agreement for new business cooperation with Sumitomo Mitsui Card and SMFG, under which NTT DOCOMO group and SMFG will pursue joint business development to further expand their "iD" electronic money service leveraging the customer base and know-how of the two companies and thereby facilitate cashless payments, and look into the possibility of new ways of collaboration in the area of FinTech, etc. As a result of this arrangement, NTT DOCOMO agreed to sell all Sumitomo Mitsui Card shares in our possession to SMFG in April 2019.

Impact on accounting treatment on consolidated financial statements

In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", NTT Group reclassified its investment in Sumitomo Mitsui Card from "Investment accounted for using the equity method" to "Asset held for sale". As a result, the subsequent application of the equity method was discontinued and the amount of the asset was measured by the book value at that time. In detail, assets held for sale comprise ¥234,160 million of investments in an associate which had been accounted for using equity method.

Accumulated other comprehensive income (net of taxes) related to "Asset held for sale" amounted to ¥31,835 million (credit) and was included in "Other components of equity" on the condensed consolidated statement of financial position as of September 30, 2018. All of this amount will not be recognized in profit or loss but will be directly reclassified to "Retained earnings" when the asset was sold.

Due to this conclusion to recover this investment by sale, "Deferred tax liabilities" caused by temporary differences in connection with this investment increased by ¥42,530 million and "Deferred tax assets" on the condensed consolidated statement of financial position was offset in the same amount. As a result, "Income taxes" on the condensed consolidated statements of profit or loss increased by ¥20,667 million, and "Share of other comprehensive income of entities accounted for using equity method (Items that will not be reclassified to profit or loss)" (credit) on the condensed consolidated statements of comprehensive income decreased by ¥21,863 million, respectively.

9. Property, Plant and Equipment

Component of Property, plant and equipment

	Millions of yen		
	As of Transition Date to IFRS (April 1, 2017)	As of March 31, 2018	As of September 30, 2018
Telecommunications equipment	11,136,502	11,007,130	10,989,041
Telecommunications service lines	15,991,663	16,183,748	16,262,392
Buildings and structures	5,396,368	5,505,984	5,565,715
Machinery, vessels and tools	2,215,418	2,297,488	2,408,863
Land	639,511	657,746	721,720
Construction in progress	414,398	420,481	436,790
Sub-total	35,793,860	36,072,577	36,384,521
Accumulated depreciation and impairment losses	(27,074,105)	(27,260,403)	(27,442,677)
Property, plant and equipment - total	8,719,755	8,812,174	8,941,844

10. Corporate Bonds

Details of corporate bonds transactions

Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 2017)						
Transaction	Entity	Description	Principal Amount	Interest Rate	Issuance Date	Maturity Date
Redemption	Nippon Telegraph and Telephone Corporation	3rd series of U.S.dollar bonds	U.S.$750 million	1.40%	July 18, 2012	July 18, 2017
Redemption	NTT Finance Corporation	45th series of bonds	¥15,000 million	0.15%	May 27, 2014	June 20, 2017
Redemption	NTT Finance Corporation	1st series of Eurodollar bonds	U.S.$500 million	1.50%	July 25, 2012	July 25, 2017
Issuance	NTT Finance Corporation	6th series of Euro-denominated bonds	€ 41.7 million	1.30%	May 30, 2017	May 28, 2027
Issuance	NTT Finance Corporation	7th series of Eurodollar bonds	U.S.$500 million	Three-month U.S.$ LIBOR + 0.53%	June 29, 2017	June 29, 2020
Issuance	NTT Finance Corporation	8th series of Euro-denominated bonds	€ 35 million	0.85%	July 27, 2017	July 27, 2024

Six Months Ended September 30, 2018 (April 1, 2018 to September 30, 2018)						
Transaction	Entity	Description	Principal Amount	Interest rate	Issuance date	Maturity date
Redemption	NTT DOCOMO	15th series of corporate bonds	¥80,000 million	1.96%	June, 11 2008	June, 20 2018
Redemption	NTT DOCOMO	17th series of corporate bonds	¥30,000 million	1.77%	December, 3 2008	September, 20 2018
Redemption	NTT Finance Corporation	42th series of corporate bonds	¥20,000 million	0.50%	May, 28 2013	June, 20 2018
Issuance	NTT Finance Corporation	11th series of Euro-denominated bonds	€ 60 million	1.27%	May, 22 2018	May, 22 2028
Issuance	NTT Finance Corporation	12th series of Euro-denominated bonds	€ 60 million	0.63%	August, 9 2018	August, 9 2023

11. Equity and Other Equity Items

(1) Issued Shares and Treasury Stock

Reconciliation of the number of issued shares and treasury stock

(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	–	18,699
Disposal of treasury stock based on additional less-than-one-unit share purchase demand	–	(2,042)
Cancellation of treasury stock	(146,000,000)	(146,000,000)
September 30, 2018	1,950,394,470	113,215

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.

On September 18, 2018, the Board of Directors resolved that NTT would cancel 146,000,000 of its shares on September 26, 2018, and as a result of NTT cancelling such shares on September 26, 2018, additional paid-in capital decreased ¥2 million and retained earnings decreased ¥718,258 million.

On November 6, 2018, the Board of Directors resolved that NTT may acquire up to 36 million shares of its outstanding common stock for an amount in total not exceeding ¥150 billion from November 7, 2018 through March 29, 2019.

(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 ¥49,432 million, respectively, at the transition date to IFRS, at the close of the fiscal year ended March 31, 2018, and at the end of the six months ended September 30, 2018.

(3) Other Components of Equity

(Millions of yen)

	Six Months Ended September 30, 2017				
	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	8,217	1,384	(508)	29,643	38,736
Transfer to retained earnings	–	–	508	–	508
September 30, 2017	138,096	(4,195)	–	84,796	218,697

(Millions of yen)

	Six Months Ended September 30, 2018				
	Change in the fair value of financial assets measured at fair value through other comprehensive income*1*2	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	21,705	(940)	(485)	31,242	51,522
Transfer to retained earnings	(5,859)	–	485	–	(5,374)
Transfer to non-financial assets, etc.	–	3,905	–	–	3,905
September 30, 2018	162,366	(3,692)	–	89,585	248,259

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

*2. The balance of "Change in the fair value of financial assets measured at fair value through other comprehensive income" on September 30, 2018 includes amounts related to "Asset held for sale" under IFRS 5. For details, please refer to “Note 8. Assets Held for Sale” for additional details.

(4) Dividends

The amount of dividends paid out in the six months ended September 30, 2017 and 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

Amount of dividends declared with a record date during the six months ended September 30, 2018 and an effective date after the six months ended September 30, 2018

Resolution	Class of Shares	Source of Dividends	Total Dividend (Millions of yen)	Dividend per Share (Yen)	Record Date	Effective Date
November 6, 2018 Board of Directors	Common shares	Retained earnings	165,774	85	September 30, 2018	December 5, 2018

(5) Equity transactions with noncontrolling interests

On October 31, 2018, the Board of Directors of NTT DOCOMO resolved that NTT DOCOMO may repurchase up to 260 million outstanding shares of its common stock for an amount in total not exceeding ¥600 billion during the period from November 1, 2018 through March 31, 2019

On November 6, 2018, the board of directors of NTT DOCOMO resolved to launch a tender offer to repurchase up to 257,953,468 shares of its outstanding common stock between November 7, 2018 and December 7, 2018. On the same day, NTT's Board of Directors resolved that NTT may participate in the tender offer to sell 257,953,400 shares of its current holdings of NTT DOCOMO's common stock. If NTT DOCOMO's stock repurchase results in a change in NTT's ownership interest in NTT DOCOMO, NTT expects to record the transaction as a capital transaction for accounting purposes.

(6) Other

According to the NTT Act, NTT must obtain authorization from the Minister of Internal Affairs and Communications for certain financial matters including the issuance of new shares, bonds with a right to subscribe for new shares, and disposal of profits.

12. Operating Revenues

Disaggregation of revenues

Relationship between disaggregated revenues and segment revenues

For the Six Months Ended September 30

(Millions of yen)

Main Services	Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 2017)					
	Segment					
	Regional Communications Business	Long Distance and International Communications Business	Mobile Communications Business	Data Communications Business	Other Business	Total
Fixed voice related services	468,472	102,568	–	–	–	571,040
Mobile voice related services	–	–	464,111	–	–	464,111
IP/packet communications services	623,803	198,329	1,064,834	–	2,054	1,889,020
Sales of telecommunications equipment	37,276	7,900	318,805	–	–	363,981
System integration services	48,240	672,397	–	914,783	11,992	1,647,412
Other services	97,445	66,451	415,991	–	175,711	755,598
Total	1,275,236	1,047,645	2,263,741	914,783	189,757	5,691,162

(Millions of yen)

Main Services	Six Months Ended September 30, 2018 (April 1, 2018 to September 30, 2018)					
	Segment					
	Regional Communications Business	Long Distance and International Communications Business	Mobile Communications Business	Data Communications Business	Other Business	Total
Fixed voice related services	442,232	96,063	–	–	–	538,295
Mobile voice related services	–	–	473,062	–	–	473,062
IP/packet communications services	581,997	208,600	1,075,644	–	2,191	1,868,432
Sales of telecommunications equipment	36,532	5,832	390,155	–	–	432,519
System integration services	46,695	688,907	–	966,021	13,235	1,714,858
Other services	102,149	62,289	418,335	–	183,260	766,033
Total	1,209,605	1,061,691	2,357,196	966,021	198,686	5,793,199

For the three Months Ended September 30

(Millions of yen)

Main Services	Three Months Ended September 30, 2017 (July 1, 2017 to September 30, 2017)					
	Segment					
	Regional Communications Business	Long Distance and International Communications Business	Mobile Communications Business	Data Communications Business	Other Business	Total
Fixed voice related services	230,021	50,819	–	–	–	280,840
Mobile voice related services	–	–	236,917	–	–	236,917
IP/packet communications services	311,752	100,150	536,645	–	1,010	949,557
Sales of telecommunications equipment	18,954	3,303	161,944	–	–	184,201
System integration services	27,833	353,074	–	466,952	7,344	855,203
Other services	49,793	31,823	210,273	–	83,834	375,723
Total	638,353	539,169	1,145,779	466,952	92,188	2,882,441

(Millions of yen)

Main Services	Three Months Ended September 30, 2018 (July 1, 2018 to September 30, 2018)					
	Segment					
	Regional Communications Business	Long Distance and International Communications Business	Mobile Communications Business	Data Communications Business	Other Business	Total
Fixed voice related services	217,761	48,372	–	–	–	266,133
Mobile voice related services	–	–	238,523	–	–	238,523
IP/packet communications services	288,682	104,254	536,420	–	1,098	930,454
Sales of telecommunications equipment	18,532	4,342	211,624	–	–	234,498
System integration services	26,814	355,617	–	487,562	7,157	877,150
Other services	50,774	32,550	210,389	–	99,996	393,709
Total	602,563	545,135	1,196,956	487,562	108,251	2,940,467

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 services, 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 lines, 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.

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. For these services, the portion of revenue corresponding to the voice 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 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.

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.

Regional Communications Business Segment

New sales subsidies paid to collaboration model operators for new contracts 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. The amounts paid as sales subsidies for ongoing use at the time of future annual contract renewal are estimated mainly based on historical performance and deducted from revenues for one year from the time of initial contract conclusion or the most recent contract renewal as variable consideration.

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 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.

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 comprises the sale of telecommunications equipment to agent resellers and other purchasers. NTT Group recognizes revenue upon delivery of the equipment to agent resellers and other purchasers. Upon delivery to agent resellers, certain commissions and incentives given to subscribers are recognized as a reduction of revenues of telecommunication equipment. Subscribers have the option to select installment payments for the purchase of the handset from the agent reseller or others 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 funds by paying for the purchase of the handset to the agent. 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 based input 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, financial and payment services, shopping services, services related to everyday life, and "Mobile Device Protection Service."

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

With respect to these services, NTT Group recognizes revenues either upon delivery or completion of services.

13. 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 six months ended September 30, 2018.

(1) Carrying Amount and Fair Value of Financial Instruments Not Measured at Fair Value

As of Transition Date to IFRS and March 31, 2018
(excluded not required to disclose the fair value according to previous accounting standards)

(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

With the exception of the above items, carrying amounts are reasonable approximation to fair value, and so are not included in the table.

Loans receivable in the above table are primarily included in Other financial assets.

The carrying amounts of loans receivable with floating rates approximate their fair values because such loans receivable reflect market rates of interest 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.

As of September 30, 2018

(Millions of yen)

	As of September 30, 2018	
	Carrying amount	Fair value
Long-term debt (including current portion or balance due for repayment)	3,514,354	3,558,965

With the exception of the above items, carrying amounts are reasonable approximations 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.

(2) Fair Value Measurements

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 inputs to valuation techniques used to measure fair value are required to be categorized into three levels based on their observability. Valuation techniques are required to prioritize the use of more observable input. NTT Group categorizes the assumptions (inputs) used to measure fair value as following three levels, Level 1 measurements as the highest priority:

・Level 1

Unadjusted market prices for identical assets or liabilities in active markets that the company can access at the measurement date

・Level 2

Among inputs derived principally from observable market data for assets or liabilities quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than market prices included in Level 1

・Level 3

Unobservable inputs for assets or liabilities

Changes between these levels are recognized as having occurred at the end of each quarter.

The assets and liabilities measured at fair value

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

As of 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 transfer 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 was evaluated as other than temporary and the investment was written down to its fair value under U.S. GAAP.

The assets and liabilities measured at fair value

As of September 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	－	88,082	－	88,082
Investments in capital	－	－	34,166	34,166
Loans receivable	－	168,570	－	168,570
Derivatives	－	974	－	974
Financial assets measured at fair value through other comprehensive income				
Equity securities	387,861	－	66,713	454,574
Hedging instrument used for cash flow hedging				
Derivatives	－	21,802	－	21,802
Total	387,861	279,428	100,879	768,168
Financial liabilities:				
Financial liabilities measured at fair value through profit/loss				
Derivatives	－	1,433	－	1,433
Hedging instrument used for cash flow hedging				
Derivatives	－	14,589	－	14,589
Total	－	16,022	－	16,022

1. In the six months ended September 30, 2018, there was no material transfer 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 six months ended September 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 others, 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.

14. Subsequent Events

Commencement of the Tender Offer for Shares of NTT Urban Development Corporation

On October 15, 2018, NTT decided at its Board of Directors meeting to conduct a series of transactions for the purpose of making NTT Urban Development Corporation (the “Target”) a wholly-owned subsidiary of NTT-SH Corporation (the “Offeror”), which is a wholly-owned subsidiary of NTT, by the Offeror acquiring all of the common shares of the Target (excluding those held by NTT and the Target’s treasury shares owned by the Target) through a tender offer (the “Tender Offer”) under the Financial Instruments and Exchange Act, and the Offeror decided to conduct the Tender Offer.

Overview of the Tender Offer is as follows.

1. Period of the Tender Offer
   From October 16, 2018 (Tuesday) to November 27, 2018 (Tuesday) (30 Business Days)

2. Tender Offer Price
   JPY 1,680 per share of common stock

3. Number of Share Certificates, Etc. to be Purchased
   Number of Share Certificates, Etc. to be purchased: 107,638,423 （shares）
   Minimum number of Share Certificates, Etc. to be purchased: ―（shares）
   Maximum number of Share Certificates, Etc. to be purchased: ―（shares）

4. Purchase Price: JPY 180,832,550,640
   (Note) The purchase price is an amount obtained by multiplying the Tender Offer Price (JPY 1,680 per share) by the number of shares to be purchased in the Tender Offer (107,638,423 shares).

5. Commencement Date of the Settlement
   December 4, 2018 (Tuesday)

NTT's resolution to repurchase its common stock

Please see “Note 11.Equity and Other Equity Items” for details on the resolutions regarding NTT's authorization of a share repurchase.

NTT DOCOMO's resolution to repurchase its common stock

Please see “Note 11.Equity and Other Equity Items” for details on the resolutions regarding NTT DOCOMO's authorization of a share repurchase, NTT DOCOMO's launch of a tender offer and NTT's participation in NTT DOCOMO's tender offer.

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

(1) Transition to Financial Reporting in Accordance with IFRS

NTT Group has applied IFRS beginning with the three months ended June 30, 2018 (April 1, 2018 to June 30, 2018).

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 stipulated in IFRS 1 and applied by NTT Group are described below.

(i) Business Combinations

NTT Group 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, regardless of whether there is any indication of impairment.

(ii) Deemed Cost

NTT Group, for certain property, plant and equipment and investment property, uses the fair value as of the transition date to IFRS that is a surrogate for cost at that date as the deemed cost.

(iii) Operating Revenues

NTT Group has retrospectively applied IFRS 15 through the practical expedient set out in (d) under paragraph C5 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

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 in accordance with U.S. GAAP which is previous accounting standards, without restatement in accordance with IFRS 9.

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

Upon transitioning to IFRS, NTT has reconciled 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 reconciliation tables and in the notes to these tables.

In the reconciliation 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.

Reconciliation of 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 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

Reconciliation of Equity as of September 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	840,663	142,665	1,060	984,388	Cash and cash equivalents
Short-term investments	144,206	84,859	(1,971)	227,094	Other financial assets
Notes and accounts receivable, trade	2,739,030	941,373	13,374	3,693,777	Trade and other receivables
Allowance for doubtful accounts	(48,729)	48,729	–	–	
Accounts receivable, other	567,027	(567,027)	–	–	
Inventories	386,862	(7,739)	(44,367)	334,756	Inventories
Prepaid expenses and other current assets	600,288	(127,727)	20,600	493,161	Other current assets
Total current assets	5,229,347	515,133	(11,304)	5,733,176	Total current assets
Property, plant and equipment					Non-current assets
Telecommunications equipment	11,014,642	–	–	–	
Telecommunications service lines	16,145,869	–	–	–	
Buildings & structures	6,222,954	–	–	–	
Machinery, vessels and tools	2,117,492	–	–	–	
Land	1,304,617	–	–	–	
Construction in progress	459,247	–	–	–	
Accumulated depreciation	(27,461,554)	–	–	–	
Net property, plant and equipment	9,803,267	(999,542)	(16,833)	8,786,892	Property, plant and equipment
	–	1,043,474	(36,584)	1,006,890	Investment property
Investments and other assets					
Investments in affiliated companies	496,445	–	37,216	533,661	Investments accounted for using equity method
Marketable securities and other investments	508,680	508,654	(191)	1,017,143	Other financial assets
Goodwill	1,366,673	–	(457,534)	909,139	Goodwill
Software	1,201,543	(1,201,543)	–	–	
Other intangible assets	416,509	1,179,787	4,165	1,600,461	Intangible assets
Other assets	1,505,899	(885,994)	24,249	644,154	Other non-current assets
Deferred income taxes	969,789	–	253,579	1,223,368	Deferred tax assets
Total investments and other assets	6,465,538	–	–	–	
	16,268,805	(355,164)	(191,933)	15,721,708	Total non-current assets
Total assets	21,498,152	159,969	(203,237)	21,454,884	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	268,876	864,706	(3,096)	1,130,486	Short-term debt
Current portion of long-term debt	710,206	(710,206)	–	–	
Accounts payable, trade	1,239,946	197,215	(11,347)	1,425,814	Trade and other payables
Current portion of obligations under capital leases	15,866	11,532	21,120	48,518	Other financial liabilities
Accrued payroll	442,953	–	516	443,469	Accrued payroll
Accrued taxes on income	247,954	–	6,265	254,219	Accrued taxes on income
Accrued consumption tax	92,430	(92,430)	–	–	
Advances received	360,952	(360,952)	–	–	
Other	483,083	224,275	211,213	918,571	Other current liabilities
Total current liabilities	3,862,266	134,140	224,671	4,221,077	Total current liabilities
Long-term liabilities					Non-current liabilities
Long-term debt (excluding current portion)	3,181,371	–	3,722	3,185,093	Long-term debt
Obligations under capital leases (excluding current portion)	22,730	118,621	66,382	207,733	Other financial liabilities
Liability for employees' retirement benefits	1,624,134	–	270,071	1,894,205	Defined benefit liabilities
Accrued liabilities for point programs	94,136	(94,136)	–	–	
Deferred income taxes	150,380	–	(56,582)	93,798	Deferred tax liabilities
Other	506,945	1,344	(236,073)	272,216	Other non-current liabilities
Total long-term liabilities	5,579,696	25,829	47,520	5,653,045	Total non-current liabilities
Total liabilities	9,441,962	159,969	272,191	9,874,122	Total liabilities
Redeemable non-controlling interests	54,795	–	(54,795)	–	
Equity					Equity
NTT Shareholders' equity					NTT Shareholders' equity
Common stock	937,950	–	–	937,950	Common stock
Additional paid-in capital	2,855,486	–	(458,048)	2,397,438	Additional paid-in capital
Retained earnings	6,033,702	–	(110,414)	5,923,288	Retained earnings
Accumulated other comprehensive income (loss)	33,142	–	185,555	218,697	Other components of equity
Treasury stock	(418,599)	–	–	(418,599)	Treasury stock
Total NTT shareholders' equity	9,441,681	–	(382,907)	9,058,774	Total NTT shareholders' equity
Non-controlling interests	2,559,714	–	(37,726)	2,521,988	Non-controlling interests
Total equity	12,001,395	–	(420,633)	11,580,762	Total equity
Total liabilities and equity	21,498,152	159,969	(203,237)	21,454,884	Total liabilities and equity

Reconciliation of Equity as of 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

Reconciliation of Comprehensive Income for the Six Months Ended September 30, 2017 (April 1, 2017 to September 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	571,039	–	–	–	
Mobile voice related services	467,669	–	–	–	
IP/packet communications services	1,908,862	–	–	–	
Revenues from the sale of telecommunications equipment	348,515	–	–	–	
System integration	1,599,833	–	–	–	
Other	768,877	–	–	–	
Total operating revenues	5,664,795	(7,226)	33,593	5,691,162	
Operating expenses					Operating expenses
Cost of services	1,120,488	(1,120,488)	–	–	
Cost of equipment sold	379,912	(379,912)	–	–	
Cost of system integration	1,141,083	(1,141,083)	–	–	
Depreciation and amortization	659,938	(659,938)	–	–	
Impairment losses	557	(557)			
Selling, general and administrative expenses	1,387,634	(1,387,634)	–	–	
	–	1,187,752	(1,216)	1,186,536	Personnel expenses
	–	2,641,486	43,039	2,684,525	Expenses for purchase of goods and services and other expenses
	–	659,938	4,280	664,218	Depreciation and amortization
	–	62,670	100	62,770	Expenses on disposal of fixed assets
	–	557	185	742	Impairment losses
	–	119,521	(65,500)	54,021	Taxes and dues
Total operating expenses	4,689,612	(17,688)	(19,112)	4,652,812	Total operating expenses
Operating income	975,183	10,462	52,705	1,038,350	Operating profit
Non-operating income (expenses)					
Interest and amortization of bond discounts and issue costs	16,573	22,526	1,175	40,274	Finance costs
Interest income	8,962	26,517	2,404	37,883	Finance income
Other, net	14,453	(14,453)	–	–	
	–	6,755	(785)	5,970	Share of profit (loss) of entities accounted for using equity method
Total non-operating income (expenses)	6,842	–	–	–	
Income before income taxes and equity in earnings (losses) of affiliated companies	982,025	6,755	53,149	1,041,929	Profit (loss) before taxes
Income tax expense (benefit)	309,413	–	14,758	324,171	Income taxes
Current	318,773	–	–	–	
Deferred	(9,360)	–	–	–	

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	672,612	−	−	−	
Equity in earnings (losses) of affiliated companies	6,755	(6,755)	−	−	Share of profit (loss) of entities accounted for using equity method
Net income	679,367	−	38,391	717,758	Profit
					Profit attributable to
NTT	527,505	−	36,574	564,079	NTT
Non-controlling interests	151,862	−	1,817	153,679	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	679,367	–	38,391	717,758	Profit
Other comprehensive income (loss), net of tax					Other comprehensive income (net of taxes)
					Items that will not be reclassified to profit or loss
	–	–	(479)	(479)	Share of other comprehensive income of entities accounted for using equity method
Pension liability adjustments	3,681	–	(3,963)	(282)	Remeasurements of defined benefit plans
	–	–	–	(761)	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	13,107	–	(6,304)	6,803	Unrealized gain (loss) on securities
Unrealized gain (loss) on derivative instruments	966	–	512	1,478	Cash flow hedge
Foreign currency translation adjustments	34,386	–	12,530	46,916	Foreign currency translation adjustments
	–	–	1,827	1,827	Share of other comprehensive income of entities accounted for using equity method
	–	–	–	57,024	Total of items that may be reclassified to profit or loss
Total other comprehensive income (loss)	52,140	–	4,123	56,263	Total other comprehensive income (net of taxes)
Total comprehensive income (loss)	731,507	–	42,514	774,021	Total comprehensive income
					Comprehensive income attributable to
NTT	562,436	–	40,379	602,815	NTT
Non-controlling interests	169,071	–	2,135	171,206	Non-controlling interests

Reconciliation of Comprehensive Income for the Three Months Ended September 30, 2017 (July 1, 2017 to September 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	280,839	–	–	–	
Mobile voice related services	238,933	–	–	–	
IP/packet communications services	959,697	–	–	–	
Revenues from the sale of telecommunications equipment	175,098	–	–	–	
System integration	817,327	–	–	–	
Other	383,119	–	–	–	
Total operating revenues	2,855,013	(3,332)	30,760	2,882,441	
Operating expenses					Operating expenses
Cost of services	565,615	(565,615)	–	–	
Cost of equipment sold	195,383	(195,383)	–	–	
Cost of system integration	579,992	(579,992)	–	–	
Depreciation and amortization	327,660	(327,660)	–	–	
Impairment losses	557	(557)	–	–	
Selling, general and administrative expenses	702,220	(702,220)	–	–	
	–	594,668	254	594,922	Personnel expenses
	–	1,345,545	33,059	1,378,604	Expenses for purchase of goods and services and other expenses
	–	327,660	5,607	333,267	Depreciation and amortization
	–	35,352	119	35,471	Expenses on disposal of fixed assets
	–	557	185	742	Impairment losses
	–	58,575	(32,832)	25,743	Taxes and dues
Total operating expenses	2,371,427	(9,070)	6,392	2,368,749	Total operating expenses
Operating income	483,586	5,738	(24,368)	513,692	Operating profit
Non-operating income (expenses)					
Interest and amortization of bond discounts and issue costs	8,244	3,967	1,061	13,272	Finance costs
Interest income	4,385	4,294	2,055	10,734	Finance income
Other, net	6,065	(6,065)	–	–	
	–	3,184	(219)	2,965	Share of profit (loss) of entities accounted for using equity method
Total non-operating income (expenses)	2,206	–	–	–	
Income before income taxes and equity in earnings (losses) of affiliated companies	485,792	3,184	25,143	514,119	Profit (loss) before taxes
Income tax expense (benefit)	157,015	–	4,914	161,929	Income taxes
Current	161,997	–	–	–	
Deferred	(4,982)	–	–	–	

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	328,777	−	−	−	
Equity in earnings (losses) of affiliated companies	3,184	(3,184)	−	−	Share of profit (loss) of entities accounted for using equity method
Net income	331,961	−	20,229	352,190	Profit
					Profit attributable to
NTT	256,033	−	18,757	274,790	NTT
Non-controlling interests	75,928	−	1,472	77,400	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	331,961	–	20,229	352,190	Profit
Other comprehensive income (loss), net of tax					Other comprehensive income (net of taxes)
					Items that will not be reclassified to profit or loss
	–	–	(424)	(424)	Share of other comprehensive income of entities accounted for using equity method
Pension liability adjustments	1,588	–	(1,649)	(61)	Remeasurements of defined benefit plans
	–	–	–	(485)	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	8,984	–	(4,845)	4,139	Unrealized gain (loss) on securities
Unrealized gain (loss) on derivative instruments	(1,699)	–	1,061	(638)	Cash flow hedge
Foreign currency translation adjustments	25,530	–	(4,963)	20,567	Foreign currency translation adjustments
	–	–	5,781	5,781	Share of other comprehensive income of entities accounted for using equity method
	–	–	–	29,849	Total of items that may be reclassified to profit or loss
Total other comprehensive income (loss)	34,403	–	(5,039)	29,364	Total other comprehensive income (net of taxes)
Total comprehensive income (loss)	366,364	–	15,190	381,554	Total comprehensive income
					Comprehensive income attributable to
NTT	279,916	–	13,519	293,435	NTT
Non-controlling interests	86,448	–	1,671	88,119	Non-controlling interests

Reconciliation of 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 taxes
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 taxes)
					Items that will not be reclassified to profit or loss
	−	−	(432)	(432)	Share of other comprehensive income of entities accounted for using 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 entities accounted for using 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 taxes)
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 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 an each cash-generating unit or a group of cash-generating unit. 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, regardless of whether there is any indication of impairment.

The impact of this change is as follows.

	Millions of yen		
	As of Transition date to IFRS April 1, 2017	As of September 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Goodwill	(74,972)	(74,332)	(88,019)
Other components of equity	1,454	1,069	(683)
Non-controlling interests	18,815	18,560	21,612
Adjustment to retained earnings	(54,703)	(54,703)	(67,090)

	Millions of yen		
	Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Three Months Ended September 30, 2017 (July 1, 2017 to September 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 expenditure 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 September 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Property, plant and equipment	15,998	16,296	19,448
Intangible assets	1,985	2,561	3,069
Deferred tax liabilities	(5,605)	(5,858)	(7,011)
Other components of equity	39	7	11
Non-controlling interests	(697)	(931)	(1,007)
Adjustment to retained earnings	11,720	12,075	14,510

	Millions of yen		
	Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Three Months Ended September 30, 2017 (July 1, 2017 to September 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	3,498	2,065	10,237
Depreciation and amortization	(2,602)	(1,333)	(5,529)
Expenses on disposal of fixed assets	(101)	(72)	(241)
Increase(decrease) in adjustment to pretax income	795	660	4,467

(iii) Deemed Cost

In the application of IFRS, NTT Group applies the exemption provisions stipulated in IFRS 1, and for certain property, plant and equipment 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 “property, plant and equipment” 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 “property, plant and equipment” 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, sales commissions and other charges were previously capitalized and amortized over the estimated average period of the subscription term, up to the amount of non-recurring upfront fees such as income from installation fees and activation fees under U.S. GAAP, but under IFRS, the full amount of these respective costs regardless of the amount of non-recurring upfront fees 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 recognized for points earned by customers in line with service usage, but under IFRS, part of the transaction consideration is recognized 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" discount program.

For cases in which it is difficult to make a reasonable estimate on the progress of the construction work, under U.S. GAAP, revenues were recognized upon completion of the contracted services, but under IFRS, revenues are recognized within the range 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 September 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Trade and other receivables	7	1,753	234
Inventories	(24,820)	(45,290)	(27,363)
Other current assets	6,844	22,138	4,784
Property, plant and equipment	−	(299)	(102)
Deferred tax assets	(55,776)	(47,430)	(46,542)
Other non-current assets	105,517	83,564	61,940
Trade and other payables	−	−	(908)
Other current liabilities	(123,295)	(127,037)	(128,301)
Other non-current liabilities	212,543	215,004	236,783
Non-controlling interests	(47,908)	(44,199)	(46,491)
Adjustment to retained earnings	73,112	58,204	54,034

	Millions of yen		
	Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Three Months Ended September 30, 2017 (July 1, 2017 to September 30, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Profit or Loss)			
Operating revenues	6,689	4,783	(32,357)
Personnel expenses	(9,237)	(4,816)	(5,473)
Expenses for purchase of goods and services and other expenses	(18,554)	(7,966)	10,202
Depreciation and amortization	(2,213)	(1,106)	(1,841)
Expenses on disposal of fixed assets	(144)	(55)	(260)
Taxes and dues	(7)	(4)	(1)

	Millions of yen		
	Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Three Months Ended September 30, 2017 (July 1, 2017 to September 30, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
Increase(decrease) in adjustment to pretax income	(23,466)	(9,164)	(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 prior service cost arising from the defined benefit plans, those that were not recognized as components of current net periodic pension cost recognized as “Other components of equity”, 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) (such as actuarial gains or losses) 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 plan and is considered a multi-employer plan, and therefore contributions are recognized as expenses 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 plan, 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 September 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Deferred tax assets	78,628	76,917	67,643
Other non-current assets	153	(1,848)	(453)
Defined benefit liabilities	(277,371)	(269,807)	(241,746)
Other components of equity	(197,121)	(194,428)	(175,688)
Non-controlling interests	(2,698)	(2,919)	(4,169)
Adjustment to retained earnings	(398,409)	(392,085)	(354,413)

	Millions of yen		
	Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Three Months Ended September 30, 2017 (July 1, 2017 to September 30, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Profit or Loss)			
Personnel expenses	10,709	4,916	20,746
Expenses for purchase of goods and services and other expenses	371	186	741
Increase(decrease) in adjustment to pretax income	11,080	5,102	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 this changes are as follows.

	Millions of yen		
	As of Transition Date to IFRS April 1, 2017	As of September 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Other current assets	–	(27,113)	–
Inventories	160	53	136
Deferred tax assets	41,563	20,912	40,505
Other current liabilities	(132,099)	(39,181)	(129,663)
Trade and other payables	(398)	0	(398)
Non-controlling interests	10,874	5,589	10,830
Adjustment to retained earnings	(79,900)	(39,740)	(78,590)

	Millions of yen		
	Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Three Months Ended September 30, 2017 (July 1, 2017 to September 30, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Profit or Loss)			
Taxes and dues	65,454	32,667	2,413
Increase(decrease) in adjustment to pretax income	65,454	32,667	2,413

(vii) Business Combinations

Under U.S. GAAP, with respect to the acquisition of non-controlling 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 cost 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 business combination transaction, at fair value or by proportional share 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 September 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Property, plant and equipment	35,958	35,650	35,343
Investments accounted for using equity method	34,133	30,094	30,448
Goodwill	(384,201)	(384,976)	(384,584)
Intangible assets	(5,182)	(3,814)	(3,151)
Deferred tax assets	2,497	4,429	4,210
Deferred tax liabilities	1,734	1,306	1,099
Additional paid-in capital	260,796	260,796	266,166
Other components of equity	25,466	25,694	26,050
Non-controlling interests	70,932	73,852	68,029
Adjustment to retained earnings	42,133	43,031	43,610

	Millions of yen		
	Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Three Months Ended September 30, 2017 (July 1, 2017 to September 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	6	3	12
Depreciation and amortization	1,054	405	1,404
Share of profit (loss) of entities accounted for using equity method	(1,062)	(660)	(2,697)
Increase(decrease) in adjustment to pretax income	(2)	(252)	(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 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 probable 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 September 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Deferred tax liabilities	209,210	213,770	195,476
Additional paid-in capital	130,046	130,046	152,648
Other components of equity	(6,995)	(8,611)	(9,480)
Non-controlling interests	(9,539)	(10,373)	(11,409)
Adjustment to retained earnings	322,722	324,832	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 subsequent 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 September 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Redeemable non-controlling interests	50,819	54,795	49,930
Other financial liabilities (current)	(21,906)	(23,565)	(26,343)
Other financial liabilities (non-current)	(57,724)	(61,659)	(28,775)
Non-controlling interests	(32,222)	(35,355)	(27,044)
Retained earnings	−	−	(4,778)
Adjustment to additional paid-in capital	(61,033)	(65,784)	(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 that of the parent company, material events or transactions occurring within the different periods 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 joint venture 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 that 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.

The impact of this change is as follows.

	Millions of yen		
	As of Transition Date to IFRS April 1, 2017	As of September 30, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Retained earnings	(687)	1,117	(1,816)
Other components of equity	(9,118)	1,601	(12,183)
Non-controlling interests	(2,464)	899	(1,185)

(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 six months ended September 30, 2017 and the end of the fiscal year ended March 31, 2018, there was no difference in this 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 separately, 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 and legally enforceable right of offset with legal force exists at the close of the reporting period, and intention exists either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(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,” “expenses for purchase of goods and services and other expenses,” “depreciation and amortization,” or other categories of expenses based on their nature.

(5) Adjustment to Consolidated Statement of Cash Flows

The impact of the change from consolidated statement of cash flows prepared based on U.S. GAAP to that of IFRS is as follows.

(Millions of yen)

	Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Cash Flows)		
Net cash provided by (used in) operating activities	(75,616)	(96,277)
Net cash provided by (used in) investing activities	68,457	95,592
Net cash provided by (used in) financing activities	(6,399)	(36,621)

The key adjustments are the two points described below.

① 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. The impact of this change is as follows.

(Millions of yen)

	Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Cash Flows)		
Net cash provided by (used in) operating activities	(41,803)	(47,544)
Net cash provided by (used in) investing activities	41,803	47,544

② Under IFRS, in connection with changes in the consolidated statement of financial position described under section (4)(iii) above, short-term debt and cash and cash equivalents for which offsetting presentation is not permitted are presented. The impact of this change is as follows.

(Millions of yen)

	Six Months Ended September 30, 2017 (April 1, 2017 to September 30, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Cash Flows)		
Net cash provided by (used in) financing activities	(29,490)	(43,105)