

To Shareholders:

**INTERNET DISCLOSURE INFORMATION IN CONNECTION WITH
THE NOTICE OF CONVOCAION OF THE 33RD ORDINARY GENERAL MEETING OF SHAREHOLDERS**

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Pursuant to applicable laws and regulations, and Article 16 of NTT's Articles of Incorporation, the above matters are deemed to be provided to the shareholders by posting them on NTT's website.

June 1, 2018

NIPPON TELEGRAPH AND TELEPHONE CORPORATION

Business Report

Outline of the Business of NTT Group

Main Businesses of NTT Group

| Category | Main businesses |
|---|---|
| Regional Communications Business | Domestic intra-prefectural communication services and related ancillary services |
| Long Distance and International Communications Business | Domestic inter-prefectural communication services, international communication services, solutions services, and related services |
| Mobile Communications Business | Mobile telephone services and related services |
| Data Communications Business | System integration services, network system services and other services |
| Other Business | Real estate business, finance business, construction and power business, system development business, and other businesses |

Main Locations, etc. of NTT Group

■ NTT

<Head Office>

Chiyoda-ku, Tokyo

<Laboratories>

○ Laboratory Groups

- Service Innovation Laboratory Group (Kanagawa)
- Information Network Laboratory Group (Tokyo)
- Science & Core Technology Laboratory Group (Kanagawa)

○ Total number of laboratories*:12

* "Laboratory" means a section of Laboratory Groups.

■ Subsidiaries

| Category | Name of Main Company | Main Location |
|---|---|---------------------------|
| Regional Communications Business | Nippon Telegraph and Telephone East Corporation | Shinjuku-ku, Tokyo |
| | Nippon Telegraph and Telephone West Corporation | Chuo-ku, Osaka-shi, Osaka |
| Long Distance and International Communications Business | NTT Communications Corporation | Chiyoda-ku, Tokyo |
| | Dimension Data Holdings plc | United Kingdom |
| | NTT Security Corporation | Chiyoda-ku, Tokyo |
| Mobile Communications Business | NTT DOCOMO, INC. | Chiyoda-ku, Tokyo |
| Data Communications Business | NTT DATA CORPORATION | Koto-ku, Tokyo |
| Other Business | NTT URBAN DEVELOPMENT CORPORATION | Chiyoda-ku, Tokyo |
| | NTT FINANCE CORPORATION | Minato-ku, Tokyo |
| | NTT FACILITIES, INC. | Minato-ku, Tokyo |
| | NTT COMWARE CORPORATION | Minato-ku, Tokyo |

NTT Group Employment

Number of employees in NTT Group (as of March 31, 2018): 282,533 (an increase of 7,689 from the previous fiscal year)

| Category | Number of Employees |
|---|---------------------|
| Regional Communications Business | 67,592 |
| Long Distance and International Communications Business | 45,320 |
| Mobile Communications Business | 27,464 |
| Data Communications Business | 118,006 |
| Other Business | 24,151 |

Changes in Consolidated Assets and Consolidated Income of NTT Group

| Category | Fiscal year ended March 31, 2015 | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Operating revenues (billions of yen) | 11,095.3 | 11,541.0 | 11,391.0 | 11,799.6 |
| Operating income (billions of yen) | 1,084.6 | 1,348.1 | 1,539.8 | 1,642.8 |
| Income before income taxes (billions of yen) | 1,066.6 | 1,329.3 | 1,527.8 | 1,755.6 |
| Net income (billions of yen) | 518.1 | 737.7 | 800.1 | 909.7 |
| Net income per share (yen) | 236.85 | 350.34 | 390.94 | 455.78 |
| Total assets (billions of yen) | 20,702.4 | 21,035.9 | 21,250.3 | 21,675.8 |
| Shareholders' equity (billions of yen) | 8,681.9 | 8,833.8 | 9,052.5 | 9,486.0 |
| Shareholders' equity per share (yen) | 4,100.63 | 4,214.32 | 4,491.73 | 4,812.59 |

- Notes:
1. The consolidated financial statements of NTT Group are prepared in accordance with U.S. Generally Accepted Accounting Principles.
 2. Net income reflects net income attributable to NTT (excluding the portion attributable to noncontrolling interests).
 3. Net income per share reflects net income per share attributable to NTT (excluding the portion attributable to noncontrolling interests).
 4. Net income per share is calculated based on the average number of shares outstanding, excluding treasury stock, during the fiscal year. Shareholders' equity per share is calculated based on the number of shares outstanding, excluding treasury stock, at the end of the fiscal year.
 5. NTT implemented a 2-for-1 stock split of its common stock, with an effective date of July 1, 2015. Net income per share and shareholders' equity per share have been adjusted to reflect the impact of this stock split.

Changes in Non-consolidated Assets and Non-consolidated Income of NTT

| Category | Fiscal year ended March 31, 2015 | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Operating revenues (billions of yen) | 411.8 | 521.7 | 474.3 | 663.1 |
| Operating income (billions of yen) | 273.9 | 384.0 | 339.6 | 530.5 |
| Recurring profit (billions of yen) | 272.3 | 381.4 | 334.9 | 528.1 |
| Net income (billions of yen) | 556.5 | 666.6 | 288.1 | 724.9 |
| Net income per share (yen) | 254.45 | 316.59 | 140.77 | 363.20 |
| Total assets (billions of yen) | 7,027.3 | 7,052.0 | 6,681.0 | 6,710.4 |
| Net assets (billions of yen) | 4,345.4 | 4,717.9 | 4,383.5 | 4,602.5 |
| Net assets per share (yen) | 2,052.46 | 2,250.77 | 2,175.04 | 2,335.07 |

- Notes:
1. The non-consolidated financial statements of NTT are prepared in accordance with Japanese Generally Accepted Accounting Principles.
 2. Net income per share is calculated based on the average number of shares outstanding, excluding treasury stock, during the fiscal year. Net assets per share is calculated based on the number of shares outstanding, excluding treasury stock, at the end of the fiscal year.
 3. NTT implemented a 2-for-1 stock split of its common stock, with an effective date of July 1, 2015. Net income per share and net assets per share have been adjusted to reflect the impact of this stock split.

Matters Regarding Independent Auditors

- Name of Independent Auditor

KPMG AZSA LLC

- Compensation to Independent Auditor during the Fiscal Year Ended March 31, 2018

| Independent Auditor | Amount |
|----------------------------|---------------|
| KPMG AZSA LLC | ¥380 million |

Notes:

1. The audit engagement agreements between NTT and the independent auditor do not distinguish between compensation for audits performed pursuant to the Companies Act and compensation for audits performed pursuant to the Financial Instruments and Exchange Act, and since it is not practically possible to make such a distinction, the above amount represents the total figure for both audits.
2. The Audit & Supervisory Board consented to the compensation of the independent auditor pursuant to Article 399, paragraph 1 of the Companies Act after confirming and examining the details of the audit plan, the status of performing duties of financial audits, the basis for the calculation of the estimate of compensation of the independent auditor and other factors.

- Total Monetary and Other Financial Benefits Payable by NTT and its Subsidiaries

| Independent Auditor | Amount |
|----------------------------|----------------|
| KPMG AZSA LLC | ¥3,410 million |

Notes:

1. The non-audit services for which NTT pays compensation to KPMG AZSA LLC are the provision of guidance and advice and other services in relation to International Financial Reporting Standards (IFRS).
2. Of NTT's material subsidiaries, those overseas were audited by firms other than KPMG AZSA LLC.

- Policies Concerning Decisions to Discharge or Not Reappoint Independent Auditor

In the event that the circumstances set forth in any item of Article 340(1) of the Companies Act apply to the independent auditor, the independent auditor may be discharged by a unanimous resolution of the Audit & Supervisory Board.

In addition, if the Board of Directors determines that it would be difficult for the independent auditor to perform proper audits, the Audit & Supervisory Board may propose a resolution to the Ordinary General Meeting of Shareholders that the independent auditor be discharged or that the independent auditor not be reappointed.

Content of Resolutions Concerning the Systems to Ensure the Propriety of NTT's Business

The Board of Directors made the resolution with respect to the "Basic Policy Concerning the Development of the Internal Control Systems for NTT Group." The contents of the resolution are set out below.

Basic Policies Concerning the Maintenance of Internal Control Systems

- I. Basic Concepts for the Development of Internal Control Systems
 1. NTT shall develop a system of internal controls through taking measures for the prevention and minimization of losses, with the objectives of ensuring compliance with legal requirements, managing risks, and achieving appropriate and efficient business operations.
 2. NTT shall establish the Internal Control Office which oversees the establishment of internal control rules and frameworks. The Internal Control Office shall evaluate the effectiveness of the internal control systems based on internal audits regarding high risk matters affecting the entire NTT Group, and shall make sure that necessary corrective measures and improvements are implemented.
 3. NTT shall also take appropriate measures to ensure the reliability of its internal control systems for financial reporting based on the U.S. Public Company Accounting Reform and Investor Protection Act of 2002 ("Sarbanes-Oxley Act") and the Financial Instruments and Exchange Act.
 4. As a chief executive officer, the president shall be responsible for ensuring the development and operation of the internal control systems.
- II. Development of the Internal Control Systems
 1. Systems to ensure that the performance of duties by Members of the Board and employees conform with laws and regulations and NTT's Articles of Incorporation
NTT shall implement the following measures with the objective of ensuring that its business is conducted in compliance with laws and regulations and in accordance with high ethical standards:
 - (1) NTT shall establish the Employment Rules which require employees to adhere faithfully to applicable laws, regulations and official notices, and to devote all their efforts to the performance of their duties so that business activities are appropriately and effectively carried out.
 - (2) NTT shall adopt the NTT Group Corporate Ethics Charter setting forth specific conduct guidelines concerning corporate ethics for all NTT Group officers and employees.
 - (3) NTT shall establish the Corporate Ethics Committee, chaired by the Senior Executive Vice President, to clarify the structure of responsibilities for corporate ethics. It addresses promotion of corporate ethics, improvement of compliance awareness, maintenance of corporate discipline, and investigates whistleblowers' allegation.
 - (4) NTT shall establish an internal Corporate Ethics Helpline at each NTT Group company and a group-wide external Corporate Ethics Helpline handled by an independent law firm in order to foster a more open corporate culture. Whistleblower reports may be made on an anonymous or identified basis. NTT shall ensure that whistleblowers do not suffer disadvantage as a result of using these helplines.
 - (5) Corporate ethics training shall be conducted as part of continuous educational activities for officers and employees. In addition, surveys on awareness of corporate ethics shall be conducted to check the effectiveness of these activities.
 2. Rules and other systems concerning business risk management

NTT shall take the following measures to appropriately manage business risks:

- (1) NTT shall establish the Risk Management Rules to prescribe fundamental rules concerning risk management and to promote appropriate and efficient business operations.
- (2) NTT shall establish the Business Risk Management Committee, chaired by the Senior Executive Vice President, to clarify responsibilities concerning management of business risks and to perform crisis management in response to new business risks affecting corporate operations.
- (3) In order to address group-wide coordination of risk management, NTT shall also formulate the Business Risk Management Manual to focus on preventing and preparing for risks, and positioning NTT Group to respond appropriately and rapidly as risks materialize.

3. Systems for ensuring that Members of the Board efficiently perform their duties

NTT shall take the following measures to ensure that its business activities are managed efficiently through allocating responsibilities appropriately among Members of the Board and maintaining an appropriate oversight structure to monitor such matters:

- (1) NTT shall adopt the Organization Rules governing the functions and operations of internal organizational groups, and the Authority Matrix setting forth the allocation of responsibilities among the various organizational groups.
- (2) NTT shall adopt the Rules for the Board of Directors governing the function and responsibilities of the Board of Directors. In principle, the Board of Directors shall hold meetings once each month, and be responsible for decisions on important managerial matters on the basis of applicable laws and regulations, business judgment principles, and other considerations including the duty of care. Members of the Board shall report regularly to the Board of Directors the status of implementation of their duties.
- (3) The Board of Directors shall include outside directors with independent perspectives to reinforce the oversight function for ensuring the impartial performance of duties.
- (4) As a holding company that oversees and coordinates NTT Group, NTT shall establish the Executive Officers Meeting and subcommittees for the purpose of considering and deciding important managerial matters of NTT and NTT Group, with the objective of promoting efficient and effective group management. NTT Group shall also establish a reporting structure for matters regarding business operations of group companies.

4. Systems for retaining and managing information related to the performance of duties of Members of the Board

NTT shall adopt the following measures to facilitate appropriate and efficient conduct of business activities through appropriate management of information on the performance of duties by Members of the Board:

- (1) NTT shall adopt the Document Management Rules and the Rules for Information Security Management to manage documents (including related materials and information recorded on electronic media; referred to as "Documents") and other information properly.
- (2) Documents shall be retained for the periods required by law and/or as necessary for business operations.

5. Systems for ensuring the propriety of the business activities of NTT Group

NTT shall ensure that transactions among NTT group companies are conducted appropriately and in compliance with laws and regulations, and that all group companies adopt following measures to conduct their business operations appropriately and to contribute to the growth and development of NTT Group:

- (1) Establishing a crisis communication system to notify the parent company,
 - (2) Conducting employee education and training to prevent fraud or misconduct,
 - (3) Establishing systems for information security and protection of personal information,
 - (4) Reporting regularly to the parent company on their financial condition, and
 - (5) Accepting audits by the parent company's internal audit division.
6. Employees who assist Audit & Supervisory Board Members in the performance of their duties and the independence of those employees from Members of the Board
- NTT shall adopt the following measures with respect to employees who assist Audit & Supervisory Board Members in the performance of their duties to ensure the effective performance of audits by Audit & Supervisory Board Members:
- (1) Office of Audit & Supervisory Board Members shall be established as an integral part of NTT's corporate organization under the Companies Act. Office of Audit & Supervisory Board Members shall be staffed with dedicated personnel who work full time in assisting Audit & Supervisory Board Members in the performance of their duties.
 - (2) Personnel assigned to Office of Audit & Supervisory Board Members perform their responsibilities at the instruction and direction of Audit & Supervisory Board Members.
 - (3) Decisions on transfer of personnel assigned to Office of Audit & Supervisory Board Members, evaluations of such personnel shall be made with due regard for the opinion of the Audit & Supervisory Board.
7. Systems for reporting to Audit & Supervisory Board Members by Members of the Board and employees and systems for ensuring effective implementation of audits by Audit & Supervisory Board Members
- To ensure that audits by Audit & Supervisory Board Members are carried out effectively, NTT shall adopt the following measures concerning reporting to Audit & Supervisory Board Members by Members of the Board and employees with regard to important matters relating to the performance of their duties:
- (1) Members of the Board and other personnel report the following matters concerning the performance of their duties:
 - (a) Matters resolved at Executive Officers Meeting;
 - (b) Matters that cause or may cause substantial damage to NTT;
 - (c) Monthly financial reports;
 - (d) Results of internal audits;
 - (e) Matters that pose a risk of violation of laws and regulations or the Articles of Incorporation;
 - (f) Whistleblowing;
 - (g) Material matters reported by group companies; and
 - (h) Other material compliance matters.
 - (2) Representative Members of the Board, accounting auditors, and the Internal Control Office shall report to and exchange ideas and opinions with Audit & Supervisory Board Members periodically or as needed upon request from Audit & Supervisory Board Members.
 - (3) Audit & Supervisory Board Members have the right to attend meetings of the Board of Directors and other important meetings.
 - (4) Audit & Supervisory Board Members may contract independently with and seek advice from external experts with respect to the performance of audit operations.
 - (5) Audit & Supervisory Board Members may request prepayment or reimbursement of expenses incurred in the execution of their duties. NTT shall provide prepayment or reimbursement upon such requests.

Outline of Operations of the Systems to Ensure Propriety of NTT's Business

The following section provides an outline of operations of the systems to ensure propriety of NTT's business on the basis of the Basic Policy for the Development of the Internal Control Systems for NTT Group.

1. Systems to ensure that the performance of duties by Members of the Board and employees conforms with laws and regulations and NTT's Articles of Incorporation

NTT strives to maintain and heighten awareness regarding corporate ethics and compliance with the objective of ensuring that its business is conducted in compliance with laws and regulations and in accordance with high ethical standards.

With respect to corporate ethics, the NTT Group Corporate Ethics Charter and the Employment Rules are disseminated via NTT's intranet. Also, the Corporate Ethics Committee held two meetings during the fiscal year under review, and was tasked with investigating matters reported to the Corporate Ethics Helplines for whistleblowing, and then reporting such matters to the Board of Directors, along with the status of actions taken to address such matters. During the fiscal year under review, NTT Group's external Corporate Ethics Helpline received 287 reports. NTT stipulates and appropriately implements regulations on Corporate Ethics Helpline operating procedures to ensure that whistleblowers will not suffer disadvantage as a result of using these helplines.

NTT aims to maintain and heighten compliance awareness through its efforts geared to improving the level of understanding of such issues among officers and employees. To that end, NTT offers training sessions on corporate ethics to its officers and employees, and also provides them with detailed explanations on case studies involving corporate ethics issues through NTT's intranet. NTT also conducts surveys of employee attitudes regarding corporate ethics, which it draws on in its efforts to further instill increasingly widespread awareness of corporate ethics.

2. Rules and other systems concerning business risk management

With respect to business risk management, NTT has established Risk Management Rules stipulating fundamental policies on risk management with the aims of, among other things, anticipating and preventing materialization of potential risks, and also minimizing losses if any risk materializes. Chaired by a Senior Executive Vice President, the Business Risk Management Committee spearheads efforts to develop and operate a PDCA cycle for managing risk. During the fiscal year under review, the committee held one meeting during which discussions involved identifying risks that could potentially have a company-wide impact, policies for managing such risks, and other such matters.

NTT has also formulated the NTT Group Business Risk Management Manual, and distributed it to each group company, in order to facilitate group-wide risk management initiatives. On the basis of the manual, which stipulates matters that include proactive measures for potential risks, collaborative group-wide approaches and policies for addressing risks that materialize, and pathways for communicating information, systems have been developed and implemented that enable swift action to be taken.

3. Systems for ensuring that Members of the Board efficiently perform their duties

NTT executes operations on the basis of the Organization Rules governing the functions and operations of internal organizational groups, and under the supervision of the Board of Directors, makes decisions on the basis of the Authority Matrix setting forth the allocation of responsibilities among the various organizational groups.

The Board of Directors makes decisions on matters stipulated in the Rules for the Board of Directors, including those required by laws and regulations, as well as those involving other important matters related to both corporate and Group management. Moreover, the Board of Directors supervises Members of the Board in performing their duties through such means as receiving periodic status reports from the Members of the Board with respect to performance

of their duties. The Board of Directors, which comprises 12 members including two outside independent Members of the Board, met 12 times during the fiscal year under review.

Important NTT decisions are deliberated and decided in principle at the Executive Officers Meeting, which is made up of the president, senior executive vice presidents, full-time directors, and the heads of the staff organization, and was held 33 times during the fiscal year under review. Under the Executive Officers Meeting, NTT has also established subcommittees that deliberate on issues pertaining to both corporate management strategy and Group management strategy, and are held as necessary. The major subcommittees and the number of times that meetings of the respective subcommittees were held during the fiscal year under review are as follows.

- Technology Strategy Committee (R&D vision, technology development strategy, R&D alliance strategy): 1
- Investment Strategy Committee (Investment strategy related to large investment projects, etc.): 10
- Finance Strategy Committee (Basic strategies related to finance, policies for addressing financial issues): 5

NTT obtains necessary information regarding business operations of group companies including business planning and financial reporting of these companies. To that end, NTT has established systems for obtaining reports from each group company, and otherwise gets such information by gaining access to business reports, temporarily dispatching officers from NTT, and through other such means geared to the size and characteristics of its each group company.

4. Systems for retaining and managing information related to the performance of duties of Members of the Board

NTT has established the Document Management Rules and the Rules for Information Security Management with respect to its management of information, including information related to the performance of duties by Members of the Board. Those rules are disseminated via NTT's intranet. NTT retains documents (including those recorded on electronic media) for periods determined according to document type, as required by laws and regulations, and as necessary for business operations. NTT appropriately organizes and retains documents through initiatives that include assigning information managers to each division and adopting systems that make it possible to manage documents (computer files) in accordance with the regulations.

5. Systems for ensuring propriety of the business activities of NTT Group

In the event of a crisis that could affect the overall group, NTT has established, and appropriately implements a system for communicating with the parent company, stipulated in the Business Risk Management Manual. With the aim of maintaining and heightening compliance awareness across the entire NTT Group, NTT provides guidance to group companies on offering corporate ethics training sessions, and monitors progress of those training sessions.

In terms of ensuring information security across the entire NTT Group, NTT has established the NTT Group Information Security Policy and disseminated via NTT's corporate website. Further, NTT has established the Group CISO Committee, whose membership consists of Chief Information Security Officers (CISOs) of each group company, as a forum for deliberating on issues pertaining to information security. The committee met four times during the fiscal year under review.

Group companies appropriately report their financial status, including their quarterly and monthly results, to the parent company. Those results are reported as the monthly monitoring status to NTT's Executive Officers Meeting and its Board of Directors.

Moreover, NTT's Internal Control Office, which is responsible for internal audit activities, and the internal audit divisions of major group companies uniformly conducted audits of group companies and their respective affiliates, with such audits designed to reflect material risks

common throughout NTT Group as well as those risks inherent to the respective companies.

6. Employees who assist Audit & Supervisory Board Members in the performance of their duties and the independence of those employees from Members of the Board

NTT has established Office of Audit & Supervisory Board Members to act as a system for supporting audits performed by Audit & Supervisory Board Members. The office comprises four dedicated personnel who appropriately perform their responsibilities at the instruction and direction of Audit & Supervisory Board Members. Personnel matters of these staff members, such as transfers and evaluations, are coordinated with the Audit & Supervisory Board.

7. Systems for reporting to Audit & Supervisory Board Members by Members of the Board and employees and systems for ensuring effective implementation of audits by Audit & Supervisory Board Members

Audit & Supervisory Board Members attend meetings of the Board of Directors and other important meetings. During the fiscal year under review, Audit & Supervisory Board Members Preliminary Deliberation Meeting was held 36 times. Audit & Supervisory Board Members also hold periodic meetings for exchanges of ideas and opinions with Representative Members of the Board, and otherwise engage in discussions with Members of the Board on various topics. Through such forums, they gain access to status reports on matters such as performance of duties as indicated by NTT's Basic Policy, and also provide suggestions when necessary.

Audit & Supervisory Board Members also engage in initiatives that include: exchanging ideas and opinions with the accounting auditors and internal audit divisions; gaining access to reports containing explanations of audit plans, the status of internal control systems and other such content; and providing suggestions when necessary.

Audit & Supervisory Board Members have contracted independently with attorneys and other external experts in order to seek advice with respect to the performance of audit operations, and NTT appropriately covers required costs incurred in that regard, along with other costs necessary for performing audits.

Consolidated Financial Statements

Consolidated Statement of Changes in Equity

(from April 1, 2017 to March 31, 2018)

(Millions of yen)

| | NTT shareholders' equity | | | | | Total NTT shareholders' equity | Noncontrolling interests | Total equity |
|---|--------------------------|----------------------------|-------------------|---|-------------------------|--------------------------------|--------------------------|-------------------|
| | Common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock, at cost | | | |
| At beginning of year | 937,950 | 2,862,035 | 5,626,155 | 1,562 | (375,223) | 9,052,479 | 2,455,277 | 11,507,756 |
| Adjustments due to change in fiscal year end of consolidated subsidiaries | | | 964 | (3,351) | | (2,387) | (2,012) | (4,399) |
| At beginning of year (as adjusted) | 937,950 | 2,862,035 | 5,627,119 | (1,789) | (375,223) | 9,050,092 | 2,453,265 | 11,503,357 |
| Net income | | | 909,695 | | | 909,695 | 307,980 | 1,217,675 |
| Other comprehensive income (loss) | | | | 46,318 | | 46,318 | 14,101 | 60,419 |
| Cash dividends | | | (271,405) | | | (271,405) | (126,362) | (397,767) |
| Changes in NTT's ownership interest in subsidiaries | | (1,836) | | | | (1,836) | (102,414) | (104,250) |
| Stock compensation transaction | | (6,587) | | | | (6,587) | | (6,587) |
| Acquisition of treasury stock | | | | | (235,531) | (235,531) | | (235,531) |
| Resale of treasury stock | | 1 | | | 12 | 13 | | 13 |
| Adjustment of redeemable noncontrolling interests to redemption value | | | (4,778) | | | (4,778) | | (4,778) |
| At end of year | 937,950 | 2,853,613 | 6,260,631 | 44,529 | (610,742) | 9,485,981 | 2,546,570 | 12,032,551 |

Note: Amounts are rounded off to the nearest million yen.

Notes to Consolidated Financial Statements

Matters Pertaining to the Preparation of Consolidated Financial Statements

Significant Accounting Policies

1. Standards for preparation of consolidated financial statements
Pursuant to the stipulations of Article 120-3(1) of the Ordinance of Companies Accounting, NTT's consolidated financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles. However, certain statements and notes required by U.S. Generally Accepted Accounting Principles are omitted in accordance with the second sentence of Article 120(1) of the said Ordinance, as applied mutatis mutandis pursuant to Article 120-3(3) of the said Ordinance.
2. Valuation standard and method for marketable securities
 - (1) Securities held to maturity
Amortized cost method
 - (2) Available-for-sale securities
Stated at fair value based on market price as of the balance sheet date with valuation differences directly reported as a separate component of shareholders' equity. The cost of securities sold is determined by the moving average method.
3. Valuation standard and method for inventories
Inventories consist of telecommunications equipment to be sold, materials, projects in progress and supplies, which are stated at the lower of cost or net realizable value (based on estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation). The cost of telecommunications equipment to be sold and materials are determined on a first-in first-out basis. The cost of projects in progress is mainly attributable to the cost of software production under contracts with customers or the construction costs of real estate held for resale, including the costs of labor and subcontractors. The cost of supplies is determined by the weighted-average method or by the specific identification method.
4. Depreciation and amortization of fixed assets
 - (1) Property, plant and equipment
Straight-line method
 - (2) Goodwill, Software and Other intangible assets
Straight-line method, except that goodwill and intangible assets with indefinite lives are not amortized, but are tested for impairment at least once a year.
5. Accounting standard for allowances
 - (1) Allowance for doubtful accounts
To cover expected losses from bad debts, estimated uncollectible amounts are accrued for general claims on the basis of historical bad-debt ratios, and for specific claims, including doubtful accounts, on the basis of their recoverability.
 - (2) Accrued liabilities for point programs
NTT Group offers "points" to customers based on the usage of mobile and other services, which can be exchanged for benefits, including discounts on merchandise, and records "Accrued liabilities for point programs" relating to such points that customers earn.

6. Accounting standards for liability for employees' retirement benefits
Benefit obligations and plan assets are estimated and accrued at fair value as of year-end to provide for employees' retirement benefits.
If the actuarial net gain or loss exceeds 10% of the greater of the benefit obligations or the fair value of plan assets, the portion in excess is amortized from the following fiscal year on a straight-line basis over the estimated average remaining service periods at the time of recognition.
Prior service cost arising from changes to benefit schemes is amortized from the time of recognition on a straight-line basis over the estimated average remaining service periods at the time of recognition.
7. Accounting for consumption taxes
Consumption taxes are accounted for separately by excluding them from each transaction amount.

Scope of Consolidated Subsidiaries and Equity Method Investments

Scope of consolidated subsidiaries and equity method investments

As of March 31, 2018, NTT Group comprised 922 consolidated subsidiaries and 118 equity method affiliates.

Notes on Change of Accounting Policies

Change of the fiscal year end of subsidiaries

As of April 1, 2017, certain of NTT's consolidated subsidiaries changed their fiscal year ends from December 31 or January 31 to March 31, thereby eliminating a three-month or two-month lag between their fiscal year ends and NTT's fiscal year end in NTT's consolidated financial statements. As a result of this change, NTT's retained earnings have increased by ¥964 million, and its accumulated other comprehensive income (loss) and noncontrolling interests have decreased by ¥3,351 million and ¥2,012 million, respectively, as of the beginning of the fiscal year ended March 31, 2018.

Notes to Consolidated Balance Sheet

1. "Accumulated other comprehensive income (loss)" includes unrealized gain (loss) on securities, unrealized gain (loss) on derivative instruments, foreign currency translation adjustments, and pension liability adjustments.
2. In accordance with the provisions of Article 9 of the "Act on Nippon Telegraph and Telephone Corporation, Etc.," NTT has pledged all of its assets as general collateral for corporate bonds issued.
3. Outstanding guarantees and others: ¥85,025 million

Notes to Consolidated Statement of Changes in Equity

1. Number and type of shares issued and outstanding as of the end of the fiscal year ended March 31, 2018

Common stock: 2,096,394,470 shares

2. Dividends

- (1) Payment of dividends

| Resolution | Type of Shares | Total Dividends (Millions of yen) | Dividends per Share (Yen) | Record Date | Effective Date |
|---|----------------|--------------------------------------|---------------------------------|-----------------------|----------------------|
| June 27, 2017 Ordinary general meeting of shareholders | Common stock | 120,922 | 60 | March 31, 2017 | June 28, 2017 |
| November 10, 2017 Board of Directors meeting | Common stock | 150,484 | 75 | September 30, 2017 | December 11, 2017 |

- (2) Dividends for which the record date fell in the fiscal year ended March 31, 2018 with an effective date falling in the following fiscal year

| Resolution | Type of Shares | Source of Funding for Dividend | Total Dividends (Millions of yen) | Dividends per Share (Yen) | Record Date | Effective Date |
|---|----------------|--------------------------------------|--------------------------------------|---------------------------------|-------------------|------------------|
| June 26, 2018 Ordinary general meeting of shareholders | Common stock | Retained earnings | 147,831 | 75 | March 31, 2018 | June 27, 2018 |

Notes Concerning Financial Instruments

1. Qualitative information on financial instruments

In the normal course of its business, NTT Group has certain outstanding financial instruments, including available-for-sale securities, debt securities held to maturity, long-term debt and other financial assets and liabilities incurred. Since debt mainly involves market risk due to fluctuations in interest rates and foreign currency exchange rates, efforts to alleviate such risk include establishing risk management policies and entering into derivative transactions, including forward exchange contracts, interest rate swap agreements, currency swap agreements and currency option agreements. NTT Group does not use derivative transactions for trading or speculative purposes.

2. Fair value of financial instruments

The value of the financial instruments reported on the consolidated balance sheet, their fair values as of March 31, 2018 and the differences between those values are as follows.

(Millions of yen)

| | Value reported on consolidated balance sheet | Fair value | Difference |
|---|--|-------------|------------|
| Assets | | | |
| Investments in affiliated companies | 150,913 | 160,683 | 9,770 |
| Marketable securities and other investments | | | |
| Available-for-sale securities | | | |
| Equity securities | 349,200 | 349,200 | — |
| Debt securities | 116,908 | 116,908 | — |
| Held-to-maturity securities | | | |
| Debt securities | 4,508 | 4,582 | 74 |
| Liabilities | | | |
| Long-term debt including current portion | (3,572,330) | (3,638,118) | 65,788 |
| Derivatives | | | |
| Forward exchange contracts | (5,310) | (5,310) | — |
| Interest rate swap agreements | (2,151) | (2,151) | — |
| Currency swap agreements | (21,068) | (21,068) | — |
| Currency option agreements | (842) | (842) | — |

* Amounts reported as liabilities are shown in parentheses.

Notes:

1. Assets and liabilities with carrying amounts that approximate fair values, such as cash and cash equivalents, notes and accounts receivable, trade, short-term borrowings, accounts payable, trade, and accrued payroll, are not included in the above table.
2. Methods of calculating fair values of financial instruments and matters relating to marketable securities and derivative transactions:
 - (1) Investments in affiliated companies
If active market prices are available, fair value is measured by quoted prices for identical assets in active markets. If market prices are not available, the investment is not included in the above table since determining fair value is difficult.

- (2) Marketable securities and other investments
If active market prices are available, fair value is measured by quoted prices for identical assets in active markets. If active market prices are not available, fair value is measured by inputs derived principally from observable market data provided by financial institutions.
Long-term investment securities accounted for under the cost method are not included in the above.
- (3) Long-term debt including current portion
Fair value is measured at discount rates for similar debt instruments of comparable maturities currently offered to NTT Group.
- (4) Derivatives
Forward exchange contracts, interest rate swap contracts, currency swap contracts and currency option contracts are measured by inputs derived principally from observable market data provided by financial institutions.

Notes Concerning Investment Property

1. Investment property
NTT Group maintains investment properties, including office buildings.
2. Fair value of investment property

| (Millions of yen) | |
|--|---------------|
| Amount included in the consolidated balance sheet *1 | Fair value *2 |
| 1,043,150 | 2,118,767 |

*1 Amount included in the consolidated balance sheet represents the original acquisition cost reduced by the accumulated depreciation and accumulated impairment losses.

*2 Fair value is calculated primarily through real estate appraisal standards.

Notes Concerning Financial Data Per Share

| | |
|---|-----------|
| Shareholders' equity per share: | ¥4,812.59 |
| Net income attributable to NTT per share: | ¥455.78 |

Other

Significant business combinations

On November 2, 2016 (U.S. time), NTT DATA CORPORATION ("NTT DATA"), a subsidiary of NTT, acquired Dell Systems Corporation and other corporations (currently, NTT DATA Services Corporation) through its subsidiaries, and such companies became its subsidiaries. NTT DATA also acquired Dell group's IT services-related business. The accounting procedures of these business acquisitions were finalized in the fiscal year ended March 31, 2018.

On the date of the acquisitions, the amounts of assets acquired, liabilities assumed and goodwill recognized were ¥167,503 million, ¥25,897 million and ¥178,999 million, respectively, and the total acquisition cost was ¥320,605 million.

Corporate bonds

On March 26, 2018, the Board of Directors resolved that NTT may raise up to ¥90.0 billion by issuing telegraph and telephone bonds and foreign currency bonds during the period from July 1 to September 30, 2018.

Impairment losses of a portion of metal cables for the telecommunications business

In December 2017, NTT Group determined that a portion of the metal cables used for its telecommunications business was idle assets with no prospect of future use

The usage rate of metal cables has been decreasing continuously. In addition to the downward trend in the number of subscribers to the fixed-line services that use these cables, NTT Group and other related parties such as service providers have recognized that the decrease in such services is unavoidable going forward.

Based on the changes in the business environment described above, NTT Group determined that a certain unused portion of the metal cables was idle assets with no prospect of future use and thus reduced the carrying amount to the fair value. Consequently, NTT Group recorded ¥124,800 million of impairment losses for "Telecommunications service lines" as "Impairment losses-Metal cables" on its consolidated statement of income. The fair value was measured based on the market valuation approach, considering the market price of the metal cables' major materials less the related cost incurred if the metal cables are made available for sale.

Payment received in respect of the arbitration award related to stake in Tata Teleservices Limited

In accordance with the Court (London Court of International Arbitration) decision as to Tata Sons Limited's ("Tata Sons") breach regarding execution of an option for sale of stake in Tata Teleservices Limited ("TTSL") pursuant to the shareholders agreement among TTSL, Tata Sons and NTT DOCOMO, Inc. ("NTT DOCOMO"), a subsidiary of NTT, NTT DOCOMO received payment of an arbitration award* from Tata Sons on October 31, 2017. As a result of this transaction, NTT Group recorded the award amount of ¥147,646 million as "Income from arbitration award" on its consolidated statement of income. Concurrent with the receipt of the above award amount, all shares in TTSL held by NTT DOCOMO were transferred to Tata Sons and companies designated by Tata Sons. Upon the transfer of NTT DOCOMO's shares in TTSL, NTT Group discontinued the application of the equity method to the investment in TTSL. As a result, NTT Group recorded ¥29,841 million of loss on transfer of investment in an affiliate, equal to the reclassification adjustments of foreign currency translation adjustments, in "Other, net" on its consolidated statement of income.

* The amount received included interest earned and other costs awarded.

Subsequent Events

Acquisition of treasury stock

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 ¥150.0 billion from February 22, 2018 through June 30, 2018. Based on this resolution, NTT repurchased 8,400,000 shares of its common stock for a total purchase price of ¥42,010 million in March 2018. NTT also repurchased 12,000,000 shares of its common stock for a total purchase price of ¥61,557 million in April 2018.

Non-consolidated Financial Statements

Non-consolidated Statement of Changes in Shareholders' Equity and Other Net Assets (from April 1, 2017 to March 31, 2018)

(Millions of yen)

| | Shareholders' equity | | | | | | | | Unrealized gains (losses), translation adjustments, and others | | Total net assets | |
|---|----------------------|----------------------------|-----------------------|-----------------------|----------------------------|----------------------|----------------------|------------------|--|---|------------------|--|
| | Common stock | Capital surplus | | | Legal reserve | Earned surplus | | Treasury stock | Total shareholders' equity | Net unrealized gains (losses) on securities | | Total unrealized gains (losses), translation adjustments, and others |
| | | Additional paid-in capital | Other capital surplus | Total capital surplus | | Other earned surplus | Total earned surplus | | | | | |
| | | | | | Accumulated earned surplus | | | | | | | |
| At beginning of year | 937,950 | 2,672,826 | 0 | 2,672,826 | 135,333 | 1,013,489 | 1,148,822 | (375,222) | 4,384,376 | (865) | (865) | 4,383,510 |
| Net change during the annual period | | | | | | | | | | | | |
| Cash dividends | | | | | | (271,405) | (271,405) | | (271,405) | | | (271,405) |
| Net income | | | | | | 724,908 | 724,908 | | 724,908 | | | 724,908 |
| Payments to acquire treasury stock | | | | | | | | (235,530) | (235,530) | | | (235,530) |
| Resale of treasury stock | | | 1 | 1 | | | | 11 | 12 | | | 12 |
| Others, net | | | | | | | | | | 1,096 | 1,096 | 1,096 |
| Total net change during the annual period | - | - | 1 | 1 | - | 453,502 | 453,502 | (235,519) | 217,984 | 1,096 | 1,096 | 219,080 |
| At end of year | 937,950 | 2,672,826 | 1 | 2,672,827 | 135,333 | 1,466,991 | 1,602,324 | (610,741) | 4,602,360 | 230 | 230 | 4,602,591 |

Note: Amounts are rounded down to the nearest million yen.

Notes to Non-consolidated Financial Statements

Notes Concerning Significant Accounting Policies

1. Valuation standard and method for certain assets

(1) Valuation standard and method for securities

[1] Investments in subsidiaries and affiliated companies

Investments in subsidiaries and affiliated companies are stated at cost, which is determined by the moving average method.

[2] Other securities

(a) Marketable securities

The securities are stated at fair value, which includes market price, as of the balance sheet date, with valuation differences directly reported as a separate component of net assets. The cost of securities sold is determined by the moving average method.

(b) Non-marketable securities

The securities whose fair values are not readily determinable are stated at cost, which is determined by the moving average method.

(2) Valuation standard and method for inventories

Supplies are stated at cost, which is determined by the last purchase cost method (balance sheet amount is computed by devaluing the book price to reflect declines in profitability).

2. Depreciation and amortization of fixed assets

(1) Property, plant and equipment (except lease assets)

Property, plant and equipment are depreciated using the straight-line method.

The useful life of assets is primarily as follows, and the residual values are calculated based on real residual values.

| | |
|------------|---------------|
| Buildings: | 4 to 56 years |
|------------|---------------|

| | |
|--------------------------------|---------------|
| Tools, furniture and fixtures: | 3 to 26 years |
|--------------------------------|---------------|

(2) Intangible fixed assets (except lease assets)

Intangible assets (except lease assets) are amortized using the straight-line method.

Internal-use software is amortized using the straight-line method over its estimated useful life (within 5 years).

(3) Lease assets

Financial leases other than those deemed to transfer ownership of properties to lessees

The useful lives of the assets are the terms of leases, and the residual values are calculated based on real residual values using the straight-line method.

3. Accounting standard for allowances

(1) Allowance for doubtful accounts

To cover expected losses from bad debts, estimated uncollectible amounts are accrued for general claims on the basis of historical bad-debt ratios, and for specific claims, including doubtful accounts, on the basis of their recoverability.

No allowance was accrued as of the end of the fiscal year ended March 31, 2018.

(2) Liability for employees' retirement benefits

To provide for employees' retirement benefits, benefit obligations and plan assets are estimated and accrued as of the end of the fiscal year ended March 31, 2018.

[1] Period allocation method of projected retirement benefits

When calculating retirement benefit obligations, the benefit formula method is used in determining the amount of the expected retirement benefit obligations attributed to the period up to the end of the fiscal year ended March 31, 2018.

[2] Method of recognizing actuarial differences and prior service costs

The amount of a prior service cost is accounted for as an expense in the fiscal year during which it arises, and calculated by using the straight-line method based on the average remaining service period of the employees in service.

Actuarial differences are accounted for as an expense from the fiscal year following the fiscal year in which such gains or losses are incurred, and calculated by using the straight-line method based on the average remaining service period of the employees in service.

4. Other material matters relating to the preparation of financial statements

(1) Accounting for hedging activities

Hedging activities are principally accounted for under "deferral hedge accounting." The designation "hedge accounting" is applied to forward exchange contracts and other foreign exchange contracts, and the designation "exceptional accounting" is applied to interest-rate swaps that qualify for "exceptional accounting" (Accounting Standards for Financial Instruments, Footnote 14).

(2) Accounting for consumption tax

Consumption tax is separately accounted for by excluding it from each transaction amount.

Notes to Non-Consolidated Balance Sheet

1. Assets offered as security and secured liabilities

In accordance with the provisions of Article 9 of the Act on Nippon Telegraph and Telephone Corporation, Etc., NTT has pledged all of its assets as general collateral for corporate bonds issued.

Corporate bonds (including those maturing within one year) ¥486,751 million

2. Accumulated depreciation on property, plant and equipment: ¥296,727 million

3. Accounts receivable from and payable to affiliates are as follows (excluding those otherwise classified):

Short-term accounts receivable: ¥251,866 million

Long-term accounts receivable: ¥861 million

Short-term accounts payable: ¥169,691 million

Long-term accounts payable: ¥1,154 million

Notes to Non-Consolidated Statement of Income

1. Transactions with affiliated companies

Balance of operating transactions

Operating revenues ¥124,966 million

Operating expenses ¥50,691 million

Balance of non-operating transactions ¥231,246 million

2. The "Gains on sales of investments in subsidiaries and affiliated companies" is the result of a partial sale of shares in NTT DOCOMO, INC., a subsidiary of NTT, following NTT DOCOMO's announcement of its decision to repurchase shares of its common stock.

Notes to Non-Consolidated Statement of Changes in Shareholders' Equity and Other Net Assets

Number of shares of treasury stock outstanding as of the end of the fiscal year ended March 31, 2018.

Treasury stock: 125,318,558 shares

Notes Concerning Tax Effect Accounting

The major causes of the occurrence of deferred tax assets were "securities" and "liability for employees' retirement benefits." The major causes of occurrence of deferred tax liabilities were "assets adjusted for gains or losses on transfer" and "prepaid pension costs."

Deferred tax assets exclude ¥39,962 million in valuation allowance.

Notes Concerning Related Party Transactions Subsidiaries

(Millions of yen)

| Affiliation | Name | Voting Rights Ownership Ratio | Relationship with Affiliated Party | Transaction Details | Transaction Amount | Category | Balance at End of Term | |
|-------------|---|-------------------------------|--|---|---|--|----------------------------|-------|
| Subsidiary | Nippon Telegraph and Telephone East Corporation | 100% direct ownership | Exercise of rights as shareholder, offering intermediary advice, and other support | Loan of capital ¹ | — | Long-term loans to subsidiaries | 225,220 | |
| | | | | Receipt of interest ¹ | 3,302 | Other current assets | 158 | |
| | | | | Receipt of expenses relating to basic research and development ² | 32,457 | — | — | |
| | | | | Lease of land and buildings ³ | 5,661 | Advances received | 493 | |
| Subsidiary | Nippon Telegraph and Telephone West Corporation | 100% direct ownership | Exercise of rights as shareholder, offering intermediary advice, and other support | Loan of capital ¹ | 100,000 | Short-term loans receivable | 60,000 | |
| | | | | | | Long-term loans to subsidiaries | 631,000 | |
| | | | | Receipt of interest ¹ | 5,719 | Other current assets | 676 | |
| | | | | Receipt of expenses relating to basic research and development ² | 33,600 | — | — | |
| Subsidiary | NTT Communications Corporation | 100% direct ownership | Exercise of rights as shareholder, offering intermediary advice, and other support | Loan of capital ¹ | 31,248 | Short-term loans receivable | 50,000 | |
| | | | | | | Long-term loans to subsidiaries | 197,986 | |
| | | | | Receipt of interest ¹ | 473 | Other current assets | 53 | |
| Subsidiary | NTT Finance Corporation | 92% direct ownership | Exercise of rights as shareholder, offering intermediary advice, and other support | Borrowing of capital ⁴ | 202,444 ⁵ | Short-term borrowings | 146,088 | |
| | | 7% indirect ownership | | | | Long-term borrowings from subsidiaries | 220,000 | |
| | | | | | Payment of interest ⁴ | 165 | Accrued expense | 29 |
| | | | | | Transfer of capital among NTT Group companies | 95,107 | Accounts receivable, other | 3,649 |

Transaction amounts do not include consumption taxes. Balance amounts at end of term include consumption taxes.

Transaction Conditions and Standards for Determining Transaction Conditions

Notes:

- 1 Loan conditions are the same as those for procurement of capital by NTT. No security is provided.
- 2 Payment of expenses for basic research and development is apportioned among those companies that continuously use the results of such research and development. Comprehensive determinations are made taking into consideration the expenses necessary for conducting basic research and development. Furthermore, settlement of funds for such transactions is conducted using intra-group companies' accounting systems.
- 3 With respect to leases of land and buildings, rents are set through periodic negotiations based on appraisals obtained from third parties and actual transactions involving nearby comparables. Furthermore, transfer of capital pursuant to such transactions takes place by means of group companies' accounting systems.
- 4 Interest on borrowing of capital is set taking into consideration market rates. No security is provided.
- 5 The transaction amount for borrowings from the CMS (Cash Management System) is the average balance during the fiscal year. The transaction amount for borrowings from other than the CMS is the total amount.

Notes Concerning Financial Data per Share

| | |
|----------------------|-----------|
| Net assets per share | ¥2,335.07 |
| Net income per share | ¥363.20 |

Notes Concerning Significant Subsequent Events

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 ¥150.0 billion from February 22, 2018 through June 30, 2018. Based on this resolution, NTT repurchased 8,400,000 shares of its common stock for a total purchase price of ¥42,010 million in March 2018. NTT also repurchased 12,000,000 shares of its common stock for a total purchase price of ¥61,557 million in April 2018.

Other

Corporate bonds

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